# A PROPOSED ORGANIZATION FOR A DEPARTMENT OF DEFENSE SUPPLY SYSTEM FOR COMMON-USE ITEMS

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## PREFACE

The proposals made in this paper are, in the opinion of the writer, based on sound principles of business or public administration. Accordingly, the concepts presented are neither new nor radical. Instead, their efficacy has been tested repeatedly in the past, often within the military departments themselves. Considering that the Department of Defense has for the past five years slowly moved in the direction of supply unification of the three military departments, and believing that with a new administration, the speed of accomplishing that objective will be accelerated, the writer has presented some proposals as to what may be done about achieving a sound, effective, efficient and economical Department of Defense Supply System.

He has drawn on his experiences in the Navy Supply Corps, where principles of administrative management receive a sure test, and on regulations, memoranda, and staff studies concerned with laying the foundations to initiate a Department of Defense Supply System. To the best of his judgment and ability, he has combined the kaleidoscopic pieces of his experience into this paper.

Particular recognition must be accorded the supply system studies in the materiel categories of subsistence and medical, which were prepared by the Munitions Board Staff, in collaboration with service representation from the three military departments. Without those studies as reference, the concept and principles of the paper could not have been woven together.

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The proposals made are actually a general blueprint for

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## CHAPTER I

## WHY STEPS SHOULD BE TAKEN TO EFFECT A DEPARTMENT OF DEFENSE SUPPLY SYSTEM FOR COMMON-USE ITEMS

Background within the Department of Defense.--The National Security Act of 1947[1] provided for coordination of the three military departments and the establishment of integrated policies and procedures. In the area of supply management, the Munitions Board was given the responsibility to bring about the maximum integration of military supply activities. Under the auspices of the Munitions Board, Facilities and Services Committees were established at all echelons of departmental and field establishments with the assigned mission of eliminating overlapping and duplication among the three military departments, and to promote the maximum cross-servicing. While good work was done by these committees, it gradually became apparent that only the surface could be treated, because the reasons for doing things depended upon interlaced policies, and established supply systems already in being. Because there are very deep relationships and close associations among the basic logistics functions of determination of requirements, procurement, and distribution, the realization came that greater progress would come in coordinating the supply management area if examination were turned to the functional fields of supply, such as: materiel control, property accounting, purchase,

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[1]Public Law 253, 80th Congress, 1st Session.

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## THE STEPS SHOULD BE TAKEN TO EFFECT A DEPARTMENT OF DEFENSE SUPPLY SYSTEM FOR OVERSEAS-AND-FIELD

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etc. Accordingly, the Facilities and Services Committees were disbanded and replaced at the departmental headquarters level by Councils, such as, procurement and materiel control, with their dependent committees and subcommittees, which were composed of Munitions Board staff and departmental members. It was about this time, in May of 1949, that the Secretary of Defense laid down a policy statement for the chairman of the Munitions Board:

> The Munitions Board will develop in conjunction with the three departments, the most practical supply system for common items of supply. This system should provide for adequate cross-servicing among the departments with a minimum of overlapping and the maximum of efficiency and economy in the handling of items of supply common to two or more departments. The Munitions Board will develop and submit to me not later than 13 July 1949 the assumptions on which the supply systems will be established.[2]

The Munitions Board, complemented by the Joint Chiefs of Staff and the three military departments, developed nineteen policy assumptions, applicable to the materiel logistics area, for a Department of Defense Supply System.[3] Thereupon, the council and committee organization of the Munitions Board wrestled with the problem of effecting uniform methods and procedures for each functional field of supply which would be applicable to a unified Department of Defense Supply System; but they were frustrated and thwarted in attempting to make them applicable to so many different types of materiel categories. Their direction was a horizontal, functional dissection across many segments of each of the three departments' supply systems. When unrest arose among the top management of the

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[2] Secretary of Defense policy statement accompanying Transfer Order No. 39 of May 1949, concerning separation of Department of Army and Air Force.

[3] Secretary of Defense Memorandum for the Secretaries of Army, Navy, Air Force, and J.C.S., M.B., and R & D Board, 17 November 1949.

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The Munitions Board, complemented by the Joint Chiefs of Staff and the three military departments, developed minimum policy assumptions, applicable to the material logistics area, for a Department of Defense Supply System.[9] Thereupon, the council and committee organization of the Munitions Board wrestled with the problem of effecting uniform methods and procedures for each functional field of supply which would be applicable to a unified Department of Defense Supply System; but they were frustrated and thwarted in attempting to make them applicable to an many different types of material categories. Their direction was a horizontal, functional dissection across many segments of each of the three departmental supply systems. When burst areas among the top management of the

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[9] Secretary of Defense Memorandum for the Secretaries of Army, Navy, Air Force, and J.C.S., M.B., and M R D Board, 17 Novem-

Department of Defense, at the slow progress being made by the councils and committees, the Munitions Board ordered them disbanded. A new concept was brought forth; that of studying vertical coordination and integration of all supply functions within a materiel category for each military department. At the same time there was developed by the Munitions Board staff a "Standard Materiel Category Grouping System," which was designed "for use primarily in connection with executing Munitions Board responsibility derived from the memorandum of 17 November 1949 from the Secretary of Defense regarding 'The Department of Defense Supply System'."[4] In July of 1951, the Department of Defense issued a directive "to clarify and amplify the basic policies which are to govern the operation of the supply systems in the Military Departments."[5] This directive did not actually depart from the basic objective of the 19 November 1949 memorandum, covering a Department of Defense Supply System, but it was designed as interim supply management policy pending the development of data and information which could carry out the desires for a Department of Defense System as laid down in the 19 November 1949 memorandum.[6] The individual departments could and did interpret it to their own thinking, while echelons with the Department of Defense did likewise. This directive was implemented by another Department of Defense Directive in the supply management area which established

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[4]Munitions Board memorandum for Secretaries of Army, Navy, and Air Force 18 September 1950.

[5]Department of Defense Directive 250.01-1, 17 July 1951.

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a Supply Systems Study Project to "develop and recommend such changes to existing organization, policies, standards, and procedures governing the supply operations within the Department of Defense as will maintain or increase military effectiveness and produce the optimum efficiency and economy of these supply operations from the initial requirements and resources planning stage to final consumption or other disposition."[7] After the issuance of this directive, supply systems study projects in the materiel categories of medical and dental, subsistence, and commercial automotive were started. To date, preliminary draft reports on the first two categories have been published, while the commercial category is still under study.[8] Before these studies were published, the Congress of the United States injected an additional catalyst.[9] As the result of investigations by congressional committees concerned with military preparedness (the Johnson subcommittee) and with effectiveness of military supply operations (the Bonner, Porter-Hardy and Herbert subcommittees), the mood of Congress toward supply management within the Department of Defense was exemplified by the inclusion of a general provision in the Department of Defense Appropriation Act.[10] This provision, section 638, is as follows:

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[7]Department of Defense Directive 250.11-2 (Now 4100.3), 9 August 1951.

[8]Munitions Board Office of Supply, Supply Systems Study Project, "Staff report on Department of Defense Subsistence Supply Systems", 5 February 1953 and "Staff Study of the Military Medical Supply Systems," 6 February 1953.

[9]See below p. 10 for Congressional attitudes and action.

[10]Public Law 488, Chapter 630, 82nd Congress, 2nd Session (H.R. 7391), Sec. 638 of Title VI--General Provisions.

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[7]Department of Defense Directive 5000.11-6 (Ref 4100.3), 9 August 1951.

[8]Munitions Board Office of Supply, Supply Systems Study Project, "Staff report on Department of Defense Submissions Supply Systems", 5 February 1952 and "Staff Study of the Military Medical Supply Systems," 6 February 1952.

[9]See below p. 10 for Congressional attitudes and action.

[10]Public Law 528, Chapter 530, 82nd Congress, 2nd Session (H.R. 7391), Sec. 530 of Title VI--General Provisions.

(a) Notwithstanding any other provision of law, and for the purpose of achieving an efficient, economical, and practical operation of an integrated supply system designed to meet the needs of the military departments without duplicating or overlapping of either operations or functions, no officer or agency in or under the Department of Defense, after the effective date of this section, shall obligate any funds for procurement, production, warehousing, distribution of supplies or equipment or related supply management functions, except in accordance with regulations issued by the Secretary of Defense.

(b) This section shall be effective sixty days after the approval of this act.

And so to comply with Section 638, "Military Supply System Regulations" were issued. They covered the functional logistics areas of procurement, commercial and industrial-type facilities, distribution, cataloging and standardization, conservation, utilization and disposal, transportation and traffic management, production, personnel and training, and requirements review. A specific prohibition against supply system expansion for common-use standard-stock items was included. While complying with the spirit of Congressional legislation, hardly a person in close touch with the Department of Defense supply management problem will deny that the complete intent of the Congress has not yet been carried out. Most interpretation is that the Congressional intent will not be satisfied until a Department of Defense supply system for all common-use standard stock items comes into being.

Background within the military departments.--Both before and after the passage of the National Security Act of 1947, the Department of the Army made some representations to the effect that in certain materiel categories, especially subsistence and medical and dental, the Army should be the sole logistics agency

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for requirements, procurement, and distribution. This concept came to be known as single-servicing and was repugnant to the Navy, which distrusted such plans because it realized the inseparability of logistics to the needs of its Naval Forces; and also because it felt that its system of supply in both of those areas was superior to that of the Army. At first, after the Munitions Board began to function, it seemed that the Navy might be overwhelmed by both the Army and the Air Force. The latter, although it had become separate, was still bound by old ties, as well as methods, procedures, and also supply dependence to the Army. Over heated arguments of the council table in the area of supply management, it gradually began to become clear that the Air Force had as much to gain in learning from the Navy as from the Army.

Soon after the end of World War II, the Navy, desiring to incorporate the lessons learned in the war into its supply operations, commenced a supply study as to how best to establish a unified Navy supply system which would integrate and coordinate the materiel category segments, which were at that time directly under the cognizance of various materiel bureaus. This study was approved in early 1947 as the Navy Supply Plan, and immediately began to be placed in effect.[11] The basic principles underlying this integrated supply system were: placing responsibility for performance control of all supply functions in one bureau, the Bureau of Supplies and Accounts; establishing "supply offices" for each category of Naval material, operated jointly by the

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[11]Secretary of Navy letter to Chief of Naval Operations 14 February 1947.

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Bureau of Supplies and Accounts and the Technical Bureau; decentralizing the "supply offices" out of the Washington area into a geographic location close to the industrial producers of the particular material; material of a common-use standard-stock nature was placed in the Navy Stock Fund; technical control of research and development, design, determination of requirements, inspection, construction and manufacture, and maintenance remained with the cognizant technical bureau. All other functions commonly associated in the area of supply management were delegated to the "supply office" of field activity under the management control of the Bureau of Supplies and Accounts. The accomplishments were expected: "To provide the Navy with a coordinated and integrated system for the supply of all replenishable material necessary for the maintenance and operation of the Naval Establishment, which will give effective control, maximum flexibility, and maximum security with maximum economy."[12] These objectives have since been tested, and met with tremendous success, in peace and in the Korean War; and one is struck with the similarity of these objectives with those desired for a Department of Defense Supply System.

Because the development of the Navy Supply System was engaging the complete attention and energies of its supply personnel from the passage of the National Security Act on, it is not surprising that the Navy, recognizing that it had a good thing,

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should have been less than lukewarm to any proposals of the Army. It should be pointed out that both the Army and the Air Force had many supply personnel who felt as the Navy: "Let me alone and let me look after my own operating problems of supply management." What is more, the Air Force was faced with a manifold, complex problem of supply logistics as it took over from the Army and began to operate its own department. Practical people, beset with their own problems, could not see any possibilities of effectiveness, efficiency or economy in any unified supply system.

In 1949 the National Security Act was amended to provide for the introduction of unified fiscal management in the Department of Defense. Because the Navy had been probably the foremost leader in the federal government in regard to utilizing business methods in accounting, especially for materiel, the amendment was taken in stride by the Navy, although it caused considerable apprehension on the part of the Army and Air Force. Talk of single-servicing fell to a whisper as it was realized that all material in the common-use standard-stock area would have to be financed by a revolving stock fund. Since the Navy had always utilized a stock fund method for its material management, there was no worry on its part, for it had long previously integrated fiscal management with supply management. To a businessman, it may seem strange that there should be a lack of such integration among part of the military establishment, but its concept was so new to the Army and Air Force as to require a statement of policy from the Office of the Secretary of Defense concerning

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the functional relationships of supply and fiscal management.[13]

It is understood that at the time of this writing, the response to the studies by the Munitions Board in the categories of medical and dental, and subsistence goes something as follows: the Army is ready and willing to take over single-service supply responsibility for either; the Navy recognizes that it is a mistake to have single-servicing by the Army, as proposed for medical and dental, and a different joint agency concept for subsistence; therefore the Navy feels that what is needed is a common pattern to ensure a common system for all materiel segments of a Department of Defense Supply System; the Air Force seems to be willing "to buy" both, or a combined approach for the studies.

This paper suggests that a Department of Defense Supply System which will be integrated and coordinated and achieve its objectives of effectiveness, economy, efficiency and uniform standards and procedures cannot be built unless there is a common master blueprint to have each materiel segment complementary and a consistent part of the whole.

Background from Standpoint of the Congress of the United States.--Soon after the outbreak of the Korean War, the Congress became concerned over how well the Department of Defense was

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13 Memorandum, Office of Secretary of Defense to Secretaries Depts. J C S. and chairman and directors of boards and Offices of the Dept. of Defense. 18 Jan. 1951.

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marshalling the nation's resources under the industrial mobilization program. Among others, Senator Johnson, Congressmen Hardy, Hebert, and Bonner investigated various facets of the problem. The Bonner subcommittee of the House Committee on Expenditures in the Executive Departments devoted its attention to Federal Supply Management with particular emphasis on the military aspects. This committee in its report covered among other problems, the legislative framework for Military Supply Management and had this to say:[14]

> In the public mind, unification of the Armed Forces was achieved by the National Security Act of 1947. An evaluation of field operations under this act and its later amendments shows that unification, from the standpoint of military supply, rests largely on paper.

It complained bitterly about each department manning and operating a supply system: "Should the Air Force be permitted to organize and operate its own supply system, the Department of Defense would be underwriting a program of triplication rather than the unification sought, in part at least, by the Act of 1947."[15] And speaking further, the committee said:

> This legislation has not produced the unification which the American public believed necessary. The unsettled world conditions of today and the experience in administering the National Security Act necessitate a careful reexamination of the basic charter.[16]

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[14] Committees of Expenditures in the Executive Departments, 82nd Congress, 1st Session, House Report No. 658, G.P.P., 27 June 1951, p. 8.

[15] Ibid., p. 8.

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[15] Ibid., p. 8.

[16] Ibid., p. 9.

Its legislative recommendation was as follows: "Clarification by the Congress of the basic statute, the National Security Act of 1947, as amended, is necessary to implement fully centralized supply direction and coordination and to avoid conflicting administrative interpretations."[17] The author cannot resist the comment that actually no clarification of the act is necessary, for the Secretary of Defense has the authority and responsibility under the act, and the intent of Congress in regard to the common-use items of supply is unmistakably clear. For those who doubt this opinion, read on and discover the Congressional intent.

Further investigations by the Bonner Subcommittee in the fall of 1951 disclosed that the Air Force was continuing to build a separate supply system for common-use items. In the winter of 1952, the Porter-Hardy, and the Hebert subcommittees publicized damaging facts concerning certain phases of military supply operations. The former committee reported on the purchase functions, especially in the category of automotive materiel; and the latter reported on duplications and inefficiencies in the procurement, standardization, and cataloguing fields. As a result of these investigations, which more or less confirmed unofficial Congressional opinion that the Defense Department was guilty of waste and extravagance, the Congress placed section 638 as a general provision of the Appropriation Act of the Defense Department.[18] What is not generally known by many persons associated with the

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[17] Ibid., p. 3.

[18] Op. cit. See p. 4, footnote 10.

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[17] Ibid., p. 5.

Military Establishment is that the Congress came very close to enacting into law, a single Department of Defense Supply System to apply across the board. The Senate debate on 28 and 30 June 1952 clearly demonstrates the mood of Congress.

Senator Paul Douglas introduced on the floor of the Senate, a bill identical to that previously introduced by Representative Bonner on the floor of the House, "to promote economy and efficiency through reorganization and integration of supply and service activities within and among the military departments." Under the proposed bill,[19] the functions of the Munitions Board were transferred to an Under Secretary of Defense for Supply Management who would be responsible to:

> (1) develop standardized procedures and forms and service function;
>
> (2) eliminate duplication and overlapping within and among the supply activities of the military departments in the fields of production, procurement, warehousing and distribution;
>
> (3) establish and operate depots for common items and other common supply and service installations throughout the United States;
>
> (4) develop unified logistics organizations overseas;
>
> (5) establish and operate a program to systematize scrap recovery, redistribution of excess material and surplus disposal, and coordinate such programs with the Department of Defense and with those of other departments and agencies of the Government having responsibilities in those fields;
>
> (6) develop plans for recruitment and training of a professional corps of supply personnel within the Department of Defense.

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[19] Congressional Record, 82nd Cong., 2nd Sess., Vol. 98, No. 116, 30 June 1952, p. 8777.

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(1) develop standardized procedures on forms and service functions;

(2) eliminate duplication and overlapping within and among the supply activities of the military departments in the fields of production, procurement, [illegible] or distribution;

(3) establish and operate depots for [illegible] the other common supply and service [illegible] throughout the United States;

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(6) develop plans for recruitment and [illegible] of a professional corps of supply [illegible] within the Department of Defense.

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[18] Congressional Record, [illegible], Vol. [illegible], No. 116, 30 June 1952, p. [illegible].

Speaking on behalf of this amendment to H.R. 7391, the Appropriation Act for the Department of Defense, Senator Douglas had this to say:

> They (the military departments) have been so slow that at times it looks as though they have been sabotaging, that they have not been in favor of unification, that they wanted to maintain their separate systems of supply and procurement, resulting in competitive bidding and in grave wastes.[20]

and speaking further, he stated:

> This was one of the purposes of the original National Security Act of 1947, the so-called Unification Act, which provided in section 202 (a)(3) that the Secretary of Defense should take appropriate steps "to eliminate unnecessary duplication or overlapping in the field of procurement, supply transportation, storage, health and research." When the Unification Act was revised in 1949 this provision was eliminated, providing a legislative opening for duplication to exist.[21]

Senator Saltonstall also entered into the debate. He said:

> When the unification bill was passed in 1947, the amendment which the Senator is now proposing was considered. It was one of those steps which the committee felt it did not want to take at that time. It felt it should not go that far in concentrating so much power in the Secretary of Defense. That was one of the problems which Secretary Forrestal had confronting him. Times have changed, and conditions have changed. Personally, I think there is considerable merit in what the Senator from Illinois is proposing. I want the record to show that I join with the Senator from Texas in suggesting that the Senator introduce a bill on the subject in January, and pursue it, so that the Unification Act may be amended somewhat along the lines the Senator from Illinois proposes. I believe it should be amended.[22]

Senator O'Mahoney concluded the debate by accepting the suggestion of Senators Johnson and Saltonstall, and obtaining the concurrence

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[20] Op. cit.: No. 115, 28 June 1952, p. 8644.

[21] Op. cit.: No. 118, 30 June 1952, p. 8778.

[22] Ibid., p. 8780.

Speaking on behalf of this amendment to H.R. 1891, the Appropriation Act for the Department of Defense, Senator Douglas had this to say:

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[20] Op. cit.: No. 118, 30 June 1950, p. [illegible].

[21] Op. cit.: No. 118, 30 June 1950, p. [illegible].

[22] Ibid., p. [illegible].

of Senator Douglas, in the following statement:

> I wish to say to the Senator from Illinois that the Subcommittee on Defense Production was unanimous in its feeling that the principle of the Bonner Amendment should be enacted into law. But the committee was aware of the fact that it could not be enacted into law on an appropriation bill. I want the Senator to know that personally I have consulted with the Secretary of Defense and the Director of the Bureau of the Budget. I spoke to both of them and told them that the economy measure must be carried through. At the same time, I recognize the fact that the committee on Armed Services of the Senate and the House are entitled as a matter of right to have the opportunity to examine into the far-reaching changes which would be made in unification.[23]

Accordingly, only section 638, which required the Department of Defense to issue coordinating supply regulations,[24] was enacted into law. However, facing the Department of Defense officials at this writing is the strong possibility that a law similar to that proposed by Representative Bonner and Senator Douglas will become law. Such a law is not necessary in the opinion of the writer. Under authority granted to the Secretary of Defense is the power to effect a unified Department of Defense Supply System for common-use items. What is needed is a broad blueprint of exactly how such a single supply system may be put together. The Munitions Board staff studies in the fields of medical and subsistence offer some aid, but taken together they are presently incompatible to each other. This paper proposes how they may be made compatible, and how the same compatibility and integration may be applied to the other common-use categories of materiel.

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[23] Ibid., p. 8780.

[24] Department of Defense Directives 4000.8 and 4000.9, 5 Sept. 1952.

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[23] Ibid., p. 8700.

[24] Department of Defense Directives 4000.8 and 4000.9, 5 Sept. 1952.

## CHAPTER II

## WHAT TO DO ABOUT SUPPLY UNIFICATION FOR COMMON-USE ITEMS

All three military departments have had a very real fear of the possibility that a fourth department, similar to the Army Service Forces of World War II, and yet vastly broader in scope, might be established to accomplish all their logistics functions of determination of requirements, procurement, and distribution of personnel, materiel, and facilities. Such a possibility is utterly repugnant to any military man who has the least grasp of the indivisibility of strategy, tactics and logistics in the conduct of any military operation, and especially in time of war. A fourth department concept is collectively and individually abhorred by the Army, Navy, and Air Force, and yet this child's fancy is just enough alive to arouse uneasy mutterings among responsible officials. A fourth service of supply to encompass only the materiel logistics field, is occasionally fostered by military extremists as the one real way to achieve service unification. There are various ideas of how the fourth service would work, but most ideas ultimately end up with a separate supply service, in its distinctive uniform, answerable to an Assistant Secretary of Defense for Supply, and responsible for all logistics functions within the area of materiel supply from the Continental United States, out along the communications pipelines to the forward combat areas.

Such a scheme is viewed in the same light as the fourth department, especially by the military commander who uneasily

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man at departmental headquarters each feels the wrath of Congress, and while in the spotlight, hopes that the attention may be quickly diverted to someone else; but the top military Department of Defense official sighs as, attempting to defend the errors of omission and commission of his subordinates, he hops to the aid, one after the other, of his functional specialists. An excellent example was the appearance of Vice Admiral C. W. Fox, SC, USN, before the procurement subcommittee of the House Committee on Armed Services.[1]

Since Congress expects a faster rate of unification under the National Security Acts of 1947 and 1949, let's see what can be done to at least remove the supply man and the top administrators from the hot seat of Congressional inquiry and the general public's dissatisfaction with triplification of supply. The military have rejected either a fourth military department or a fourth service. Is there not another alternative? There seems to be a distinct possibility that something can be done within the general supply area of the "so-called" common-use items.

Area of Common-Use Items.--The term common use has slipped into the vernacular of persons engaged with materiel aspects of the logistics problems. To this day a formal definition acceptable to all is still lacking. While arousing academic arguments as to the meaning of common-use materiel, the following definition, adapted by the author, is considered sufficient for the purposes of this paper: "common-use items are defined as items of standard, commercial production, commonly used within the military departments

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[1]Statement of Admiral Fox, House Armed Services Sub-Committee, 82nd Congress, 2nd Session, 3 March 1953.

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wonders where is his control and how much can he depend on this supply pipeline which seemingly only unites with his tactics and strategy and the very end of the pipeline. The individual departments have long accepted the concept that all military endeavors are "answerable and responsible to Command."

When the layman or Congressman greets such statements with a wondering and questioning look, and perhaps a verbal salvo, the military man retires, frustrated by the refusal of others to recognize a concept which to him is basic. In fairness to the Congressman, let's admit that most of them understand and appreciate the concept very well, but they are just plain tired and irritated to have the military departments continue to give reasons why the job of unification should not be done, rather than an explanation of how it might be done. The burden of the national defense portion of the federal budget is so heavy that in the eyes of Congressmen, even those with military experience, and especially with their constituents, the military are wastrels, bad managers, and bureaucrats in the worst sense. In short, an idea has slowly been built up in the public's mind that the military are brawny but dumb, and consequently are the scapegoats for jibes and criticism among the headline hunters as well as those honestly concerned about the management of our national defense. Despite efforts to publicize their successes, their failures become well known and well remembered, while their achievements are quickly forgotten. There is one failure, impossible to refute, and that is the cross-hauling of the same materiel, visible when one departmental supply system is compared with another.

The military personnelman, the constructor, and the supply

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by two or more military activities and practicable of inclusion within a central purchasing program." The definition is not so important as an idea and comprehension that we are speaking of items of supply that are used by the military and are similar to those found in the local retail shopping areas, serving everyone's home. Accordingly, these common-use items are those which would be recognized by their very nature and characteristics. While the definition speaks of common-use items which are common to two or more activities, it should be recognized that commonness among these items is not as widespread as might be assumed by the definition. Surveys have indicated that even such common-use items as paper towels, mimeograph paper, and toilet soap are not commonly used across the board by the three military departments or the other federal departments and agencies.[2] Even though an item may not be commonly used, by the mere fact that it has the same generic name, it should be included along with its brothers and sisters in any common supply system. Perhaps there are good reasons for only one military activity to use a particular item of supply, or perhaps the item could be eliminated under a standardization program. In any event, the best way to ascertain a judgment decision is to bring together in a single supply system all the same or similar items of supply having the same item name.

What items then are we talking about? We have indicated individual items of supply that can be grouped together under an

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[2]Department of Defense and General Services Administration, Distribution Survey of Certain Selected Civilian Type Common-Use Items, 2 Sept. 1952.

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item name such as: Paper, mimeograph. In addition, item names can be combined into classes, such as the four digit classes being prescribed by the Federal Cataloging Program under the auspices of the Department of Defense Supply Management Agencies; one such class might be Office Supplies of which paper, mimeograph, is one item name. The classes in turn could be combined under a category of materiel, such as, office and household materiel, which is one of seventeen materiel categories, as approved by the Munitions Board on 7 September 1950 to be used "in connection with executing Munitions Board responsibility derived from the memorandum of 17 November 1949 from the Secretary of Defense regarding 'The Department of Defense Supply System.'"[3] Certain of the prescribed seventeen materiel categories could be classified as common-use within our understanding of that concept. These categories are: Medical and Dental, Subsistence, Fuels and Lubricants, Household and Office Type Material, Shop and Maintenance Type Material, General Purpose Type Material, Precision Instruments, Reproduction Equipment and Related Materiels, Commercial Automotive. It is well to note that with the exception of a few minor item exceptions, technical or special military items, appearing in the categories of Aircraft, Ships, Tanks, Guns and Ammunition, Communications, and Construction, have not been included in the common-use materiel category breakdown. These latter categories are considered purely

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[3] Munitions Board Memorandum for the Secretaries of the Army, Navy, Air Force, 18 Sept. 1950.

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military and do not come within the purview of this paper. There is one other common-use category which has been excepted, that of clothing. Because clothing has already received considerable coordination attention under the Armed Services Textile and Apparel Procurement Agency, as established by the Department of Defense in 1952, and because there is almost complete distinctiveness of the uniform and equipment apparel items of the Army, Navy, Marine Corps, and Air Force, this last category has also notbeen included in the proposals of this paper.

What is Proposed for the Common-Use Areas.--The Hoover Commission in its study of supply systems in the federal government, made these comments concerning the Navy Supply System:

> The Department of the Navy has established, and has been operating since February 11, 1947, a coordinated and integrated system for the supply of all material necessary for the maintenance and operation of the Naval Establishment. One of the basic concepts in the Navy Supply System is that all material belongs to the Navy, not to an individual bureau. The Navy further recognizes that supply problems form a common pattern, and has centralized responsibility for them in its Bureau of Supplies and Accounts. To insure a uniform supply system that meets the needs of the technical Bureaus, various items are grouped into types which can be controlled from a specific Supply Demand Control Point. The maximum degree of uniformity consistent with the various types of materials is obtained under the Navy Supply System.[4]

The proposals made herein are completely in line with the comments and conclusions of the Hoover Commission, although the recommendations have been adapted to only the Department of Defense. The basic principles propounded herein are completely in consonance with

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[4]Hoover Commission on Organization of the Executive Branch of the Governemnt, "Task Force Report on the Federal Supply System," G.P.O., Jan. 1949.

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those incorporated in the Navy Supply System, at least insofar as the subject of common-use items is concerned.

This paper proposes: a coordinated and integrated Department of Defense supply system for common-use items; ownership of such materiel to be in a single Department of Defense stock fund until issued for use to a consuming activity of the Army, Navy, Marine Corps and Air Force--at which time, the appropriate departmental appropriation will be charged; grouping by appropriate item names or categories of materiel, each grouping controlled by a specific control point, called, for example: Armed Services Subsistence Materiel Agency; decentralization of each material agency below the military department level; control vested in a directorate (similar to a board of directors of a private enterprise); an agency, jointly manned and staffed by supply personnel assigned by each of the three military departments; the agency to have responsibility for computing requirements, procuring and distributing assigned materiel; the operating function of the materiel agency to be financed by a single Department of Defense management fund; management control of all stocking supply activities to remain within present owning department; area distribution of materiel to be effected in accordance with mission assigned by material agency to supply activities; technical control, including determination of materiel requirements to remain with each using department;technical control of supply methods and procedures to remain with departments except as necessary coordination and integrated uniformity may be directed by the directorate for the materiel agencies.

These proposals are consistent with the stated objectives

those incorporated in the Navy Supply System, at least insofar as the subject of [illegible] there is concerned.

This paper recommends a consolidated and integrated Department of Defense supply system for common-use items. Ownership of such material is to be in a single Department of Defense stock fund until issued for use to a requiring activity of the Army, Navy, Marine Corps and Air Force — at which time, the appropriate departmental appropriation will be charged; assignment to a department the [illegible] of material, [illegible] specific control point, [illegible]. Although material [illegible] under the military departments [illegible] (similar to a board of [illegible] of a Defense [illegible]); [illegible] the three military departments, the agency [illegible] responsibility for computing requirements, procuring and [illegible] material; the operating function of the [illegible] a single Department of Defense [illegible]; management control of all [illegible] supply activities [illegible] common-use department; area distribution of material [illegible] method in accordance with mission [illegible] supply activities; technical control, [illegible] material requirements to remain with [illegible] departments; technical control of supply [illegible] departments except as [illegible] may be directed by the [illegible] for the [illegible] specified.

These proposals are consistent with the stated objectives

of the Military Supply System Regulations established in the Department of Defense Directive 4000.8 of 17 November 1952 and other similar directives; "to develop and recommend such changes to existing organization policies, standards, and procedures governing the supply operations within the Department of Defense as will maintain or increase military effectiveness and produce optimum efficiency and economy of these supply operations from the initial requirements and resources planning stage to final consumption or other disposition."[5] These proposals contemplate the least possible reorganization or readjustments in supply operations within the military departments. These proposals require no additional appropriations on the part of Congress nor additional personnel. In fact, there is every expectation that less dollars and less people will be required. The remainder of this paper develops these proposals in broad outline form.

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[5] Department of Defense Directive 4100.3, "Supply Systems Study Project," 9 August 1951.

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[6] Department of Defense Directive 4100.2, "Supply Systems Study Project," 9 August 1961.

## CHAPTER III

## PROPOSED ORGANIZATION FOR CONTROL OF ARMED SERVICES MATERIEL AGENCIES

Decentralization of control over Materiel Agencies. -- One of the proposals made in this paper calls for the decentralization of each materiel agency below the departmental level. The reason for decentralization is to ensure control down from the existing departmental organizations; to preserve and protect their logistics responsibilities; and to prevent a super agency of control from being organized above and superimposed upon the department. The bringing together of control below the departmental level is accomplished by the establishment of a directorate, consisting of five members, with one representative from each of the following: (1) The Munitions Board, or if changed by law, an assistant Secretary of Defense for Supply to represent the supply management responsibility of the Secretary of Defense; (2) The Assistant Secretary of Defense, Comptroller, to represent the fiscal management responsibility of the Secretary of Defense; (3) Department of the Army, a representative of the Under or Assistant Secretary, who is charged with business administration in the Army; (4) Department of the Navy, a representative from the Under or Assistant Secretary, who is charged with business administration in the Navy; (5) Department of the Air Force, a representative from the Under or Assistant Secretary, who is charged with the business administration of the Air Force. See exhibit 1, for pictorial representation of these ideas.

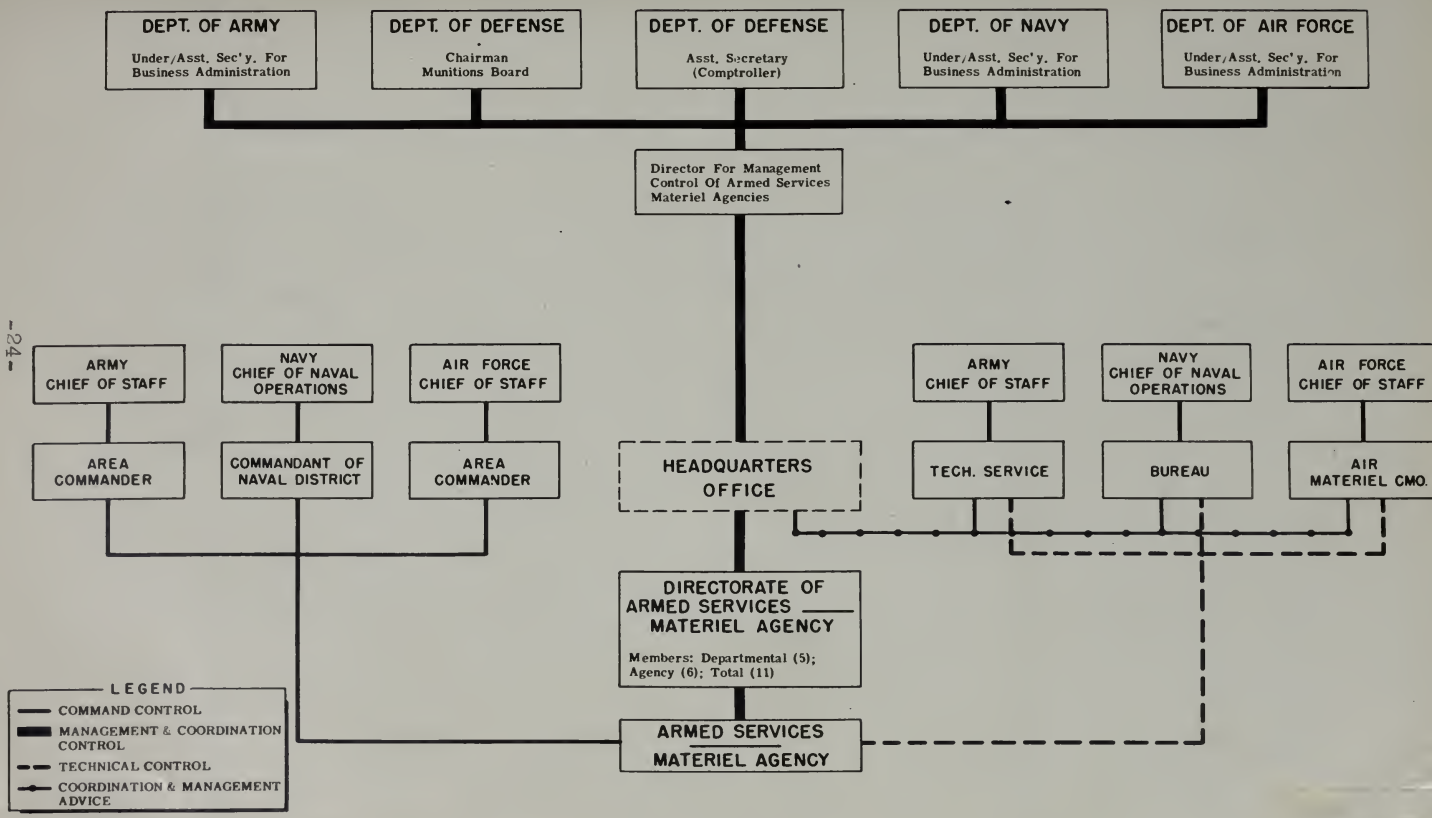
## CHAPTER III

## PROPOSED ORGANIZATION FOR CONTROL OF COMMON SERVICES BATTERIES OPERATIONS

Decentralization of control over material [illegible]. -- One of the proposals made in this paper calls for the decentralization of each material agency below the departmental level. The reason for decentralization is to ensure control [illegible] from the existing departmental organizations; to preserve and protect their logistics responsibilities; and to prevent a [illegible] of control from being organized above and superimposed over the department. The bringing together of control below the departmental level is accomplished by the establishment of a [illegible], consisting of five members, with one representative from each of the following: (1) The Munitions Board, or if [illegible], an assistant Secretary of Defense for [illegible] to represent the supply management responsibility of the Secretary of Defense; (2) The Assistant Secretary of Defense, Comptroller, to represent the fiscal management responsibility of the Secretary of Defense; (3) Department of the Army, a representative of the Under or Assistant Secretary, who is charged with business administration in the Army; (4) Department of the Navy, a representative from the Under or Assistant Secretary, who is charged with business administration in the Navy; (5) Department of the Air Force, a representative from the Under or Assistant Secretary, who is charged with the business administration of the Air Force. See exhibit 1, for pictorial

EXHIBIT 1

# PROPOSED ORGANIZATION CONTROL OF ARMED SERVICES MATERIEL AGENCIES




1 May 1953.

The directorate:-- The idea of a directorate or board of directors was suggested by the Munitions Board "Staff Study of the Military Medical Supply Systems."[1] This directorate will fulfill the same purpose and perform the same functions as a board of directors of a business enterprise, as exemplified in the following quote: "Neither in modern theory nor in practice is it assumed that the board will attempt to direct the affairs of a business in any detail. Its function is to exercise broad supervision and to share active leadership in the enterprise with the executives it has appointed."[2] This directorate will occupy a position between the five organizational entities it represents and the executive management of the various Armed Services Materiel Agencies. "How wise and prudent the collective action of the (directorate) will be, hinges upon the wisdom and judgment of each individual member and upon his qualifications to serve in the capacity for which he has been (selected)".[3] Since the directorate will have no other duties than to give broad supervision and policy direction of up to six or seven materiel agencies, the individual selection of each member is most important. It is considered that retired Generals and Admirals, experienced in the supply management area, constitute the most qualified of available personnel, at least to represent the three military departments. It is recognized that in order to

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[1] Op. cit., pp. 8-10.

[2] E. Petersen and E. G. Plowman, Business Organization and Management (Chicago: Richard D. Irwin, Inc., 1949), p. 108.

[3] Ibid., p. 108, Author's changes in parenthesis.

The directorate:-- The idea of a directorate or board of directors was suggested by the Munitions Board "Staff Study of the Military Medical Supply Systems."[1] This Directorate will fulfill the same purpose and perform the same functions as a board of directors of a business enterprise, as exemplified in the following quote: "Neither in modern theory nor in practice is it assumed that the board will attempt to direct the affairs of a business in any detail. Its function is to exercise broad supervision and to share active leadership in the enterprise with the executives it has appointed."[2] This directorate will survey a position between the five organizational entities it represents and the executive management of the various armed Services Material Agencies. "The wise and prudent the collective action of the (directorate) will be, dispose upon the wisdom and judgment of each individual member and upon his qualifications to serve in the capacity for which he has been (selected)."[3] Since the directorate will have no other duties than to give broad supervision and policy direction of up to six or seven material agencies, the individual selection of each member is most important. It is considered that retired officials and admirals, experienced in the supply management area, constitute the most qualified of available personnel, at least to guarantee the three military departments. It is recognized that in order to

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[1] Op. cit., pp. 8-10.

[2] R. Wetherson and R. G. Plummer, Business Organization and Management (Chicago: Richard D. Irwin, Inc., 1958), p. 1[illegible].

[3] Ibid., p. 108, author's changes in parenthesis.

attract such personnel for this type of service, the Congress would have to offer an amendment in order to protect such individuals' retired pay, as well as the remuneration carried by the job itself. Such a cost is small in relation to the importance of the role the directors would play. In the case of the two representatives selected by the Secretary of Defense, it is expected that they would be either from his organization or experienced, retired executives from the business world; probably the director to represent fiscal management area would be an ex-controller with some knowledge of revolving stock funds and public accounting.

The functions of this directorate, taken from James O. McKinsey[4], have been adapted to the requirements of the situation as follows:

(1) To establish the general objectives of the Department of Defense Supply System.

(2) To establish the major policies in the business administration of each Materiel Agency.

(3) To determine the organization structure of each Materiel Agency, and select the military officers who will be executives in the organization.

(4) To audit the actions of the military officers to whom all administrative responsibility has been delegated.

(5) To administer manpower control and utilization.

(6) To approve the budget of each Materiel Agency

(7) To establish a coordination of administrative supply policies of the three military departments and to insure the carrying out of all administrative regulations as prescribed by the Office of the Secretary of Defense.

(8) To approve the obtaining of necessary space, equipment material, and such other administrative supply support as may be necessary to carry out the assigned responsibilities.

There is one additional point to be discussed in regard to the Directorate. As will be noticed, there are six additional repre-

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[4] Article by James O. McKinsey, "Boards of Directors, Handbook of Business Administration", p 394

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The functions of this directorate, taken from James G. McKinsey[4], have been adapted to the requirements of the situation as follows:

(1) To establish the general objectives of the Department of Defense Supply System.

(2) To establish the major policies in the business administration of each Material Agency.

(3) To determine the organization [illegible] of each Material Agency, and select the military officers who will be executives in the organization.

(4) To audit the actions of the military officers to whom all administrative responsibility has been delegated.

(5) To administer manpower control and utilization.

(6) To approve the budget of each Material Agency.

(7) To establish a coordination of administrative supply policies of the three military departments and to insure the carrying out of all administrative regulations as prescribed by the Office of the Secretary of Defense.

(8) To approve the obtaining of necessary space, equipment material, and each other administrative supply support as may be necessary to carry out the assigned responsibilities.

There is one additional point to be discussed in regard to the Directorate. As will be noticed, there are six additional repre-

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4 Article by James G. McKinsey, "Boards of Directors, Sand-

sentatives from a particular materiel agency, placed on the directorate. These additional members are the Commanding Officer, the Deputy, the Comptroller, the Chief of the Stock Control, the Chief of Purchase, and the Chief of the Technical Divisions. They cannot exercise any of the directorate functions except as specifically delegated. They are placed there advisably to give first hand data on the operations of the particular Materiel Agency, and to aid in the formulation of policy by the directorate. In the unlikely event of the five members of the directorate usurping the operational logistics responsibilities of the Agency, the commanding officer could appeal to the Secretary of Defense for resolution by the Armed Forces Policy Council. Placing these executives on the directorate is no more than following the practice of business enterprises, wherein the major executives of the company are customarily members of the board of directors. The chairman of the Directorate will be elected for two (2) years and shall rotate, but shall always be of a military department, other than that of the commanding officer. This thought is injected, merely as a check and balance over the decentralized control of a materiel agency.

Concepts entering into the decentralization of control:- It is apparent to the reader that as portrayed in exhibit 1, the functions of policy and management control have been delegated by the five organizational entities to their representatives, who are merged into a directorate, which will carry out the functions of a management agent. In turn, the management control functions will ultimately find their fruition in the operations of a Materiel Agency. What do we mean by management control, and the other types of control

sentatives from a particular material agency, placed on the directorate. These additional members are the Commanding Officer, the Deputy, the Comptroller, the Chief of the Stock Control, the Chief of Purchase, and the Chief of the Technical Division. They cannot exercise any of the directorate functions except as specifically delegated. They are placed there admirably to give those hard data on the operations of the particular Material Agency, and we did in the formulation of policy by the directorate. In the politely event of the five members of the directorate assuming the operational logistics responsibilities of the agency, the commanding officer could appeal to the Secretary of Defense for resolution by the Armed Forces Policy Council. Similar these committees on the directorate is no more than following the practice of business enterprises, where in the major executives of the company are customarily members of the board of directors. The chairman of the directorate will be elected for two (2) years and shall rotate, but shall always be of a military department, other than that of the commanding officer. This thought is injected, merely as a check and balance over the decentralized control of a material agency.

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It is apparent to the reader that as portrayed in exhibit 1, the functions of policy and management control have been delegated by the five organizational entities to their representatives, and are merged into a directorate, which will carry out the functions of a management agent. In turn, the management control functions will ultimately find their fruition in the operations of a Material Agency. What do we mean by management control, and the other types of control

set forth in Exhibit 1? Formal definitions have been taken from Navy Department General Order No. 19, setting forth relationships of the Naval Establishment and have been amended slightly to indicate Department of Defense responsibility.[5]

(1) (Command Control)is the authoritative direction exercised over activities of the (Military Establishment) in military matters, together with the power to exercise authoritative direction in all matters when circumstances dictate.

(2) Coordination Control is that necessary direction of separate units of the (Military Establishment) to insure adequately integrated relationships between all of these units.

(3) Management Control is the direction exercised in other than military matters, by an authority of the (Military Establishment) over a unit of the (Department of Defense Supply System) in the administration of its local operating functions.

(4) Technical Control is the specialized or professional guidance and direction exercised by an authority of the (Military Establishment) in technical matters.

The Navy would have no trouble in accepting these concepts of control because it has long used them. For example, the Aviation Supply Office, a Navy Supply Demand Control Point, located in Philadelphia, Pa., operates jointly under the Chiefs of the Bureau of Aeronautics and the Bureau of Supplies and Accounts; it is under the Chief of the Bureau of Supplies and Accounts for management control; and under the Chief of the Bureau of Aeronautics for technical control. Both the Army and Air Force would be somewhat new to these concepts and yet they are the same ideas exemplified in the Armed Services Textile and Apparel Agency, or the Armed Services Petroleum Purchasing Agency. Since these ideas do not interfere

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[5] "The United States Navy", Management Engineer, Navy Department, Washington, D.C. October 1952, (Appendix H) P. 78 (Author's amendments in parenthesis)

set forth in Exhibit 17. Formal definitions have been taken from Navy Department General Order No. 12, setting forth relationships of the Naval Establishment and have been amended [illegible] to indicate Department of Defense responsibility.[5]

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[5] "The United States Navy", Management Engineer, Navy Department, Washington, D.C. October 1950. (Appendix B) P. 73 (author's amendments in parenthesis)

with existing Army or Air Force lines of authority and responsibility and because both departments have similar relationships, there should be no overwhelming reason why they should not be universally adopted.

Technical control over the agency:-- As indicated in Exhibit 1, certain control functions of a technical nature (which, as has been pointed out, is specialized or professional guidance) are reserved to the Technical Service in the Army (the Quartermaster General) the Navy Bureau (the Chief of the Bureau of Supplies and Accounts) and the Air Force (the Air Materiel Command). These technical functions are determination of requirements, logistics planning, research and development, design, inspection, manufacture, maintenance, and issue control over the items of supply. The most important aspect is the logistics planning which cannot be divorced from the individual department. The plans of the Joint Chiefs of Staff, and the logistics organizations of the Army Chief of Staff, the Navy Chief of Naval Operations and the Air Force Chief of Staff all require interpretation especially as they break down into programs and activities. Since all common-use categories of materiel in the Department of Defense Supply System will be directly related to the maintenance and operation annual appropriations of each military department, it is fitting that the planning interpretation of expected materiel consumption be furnished direct to the Materiel Agency and that direct liaison be afforded for the other technical responsibilities. Almost equally important is specifying what items the Army, Navy, and Air Force customers want in the carrying

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out of their maintenance and operating responsibilities. Thus, the Materiel Agency will perform the mechanical and clerical computation of requirement which will be reviewed by the technical control process. In summary, "the what" is performed by the technical control of the three departments; "the how much" by the Materiel Agency; and the "where and when" by a combination of both. There is another important point of technical control, and that is issue control over the issues of materiel to consuming units. This control can be effected by either administrative regulations over the reservation of certain items of supply to particular units, such as flight rations for flight crews, or by the amounts of allotment monies granted to units from maintenance and operation appropriations.

Command control over agency: -- It is expected that the materiel agencies will be widely dispersed: for example, subsistence in Chicago (perhaps where the present Army marketing office is now located); medical and dental in Edgewood, New Jersey; general stores in Philadelphia, Pa.; fuel in California; commercial automotive in Detroit, Michigan; exchange items in New York City, etc. Each materiel agency would come under the military command of either the Army Area Commander, the Commandant of the Naval District, or the Air Force Area Commander of the geographic area in which the Materiel Agency is located. The determining factor as to which one would exercise control, would depend on which service was represented by the Commanding Officer of the Materiel Agency. It would be expected that the Materiel Agency commanding officer's

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Command control over agency: -- It is expected that the material agencies will be widely dispersed; for example, consistence in Chicago (perhaps where the present area marketing office is now located); medical and dental in Edgewood, New Jersey; general stores in Philadelphia, Pa.; fuel in California; commercial automotive in Detroit, Michigan; exchange items in New York City, etc. Each material agency would come under the military command of either the Army Area Commander, the Commandant of the Naval District, or the Air Force Area Commander of the Hangrapold area in which the Material Agency is located. The determining factor as to which one would exercise control, would depend on which service was represented by the Commanding Officer of the Material Agency. It would be expected that the Material Agency commanding officer's

efficiency or fitness report would be made out by the appropriate area departmental commander. In turn, the commanding officer of the Agency should have the delegated authority to make out and sign efficiency and fitness reports for all officers assigned for duty at the agency. This authority would require a change in the present administrative regulations, covering officers detailed to another department or agency.

Headquarters offices:-- While the directorate will be holding regular meetings at each Materiel Agency, the members will also spend a certain amount of time in their home offices, which, on exhibit 1, have been designated as the headquarters offices. While each director has the responsibility of advising his departmental superior of the progress status of the Department of Defense Supply System, it is considered that he must also work with the other directors in performing his functional duties, and therefore it is appropriate that all officers of the directors be located together. Furthermore, it is recommended that departmental persons charged with procedural drafting of regulations and other administrative directives pertaining to supply management and to the particular areas covered by the Department of Defense Supply System, have their working offices located in close proximity to the Headquarters offices. The reason for this idea is because methods and procedures, originating in the various Materiel Agencies, will be coordinated by the Directorate to achieve maximum uniformity of standard methods and procedures. At the same time, their actions must be integrated and

efficiency or fitness report would be made out by the appropriate area departmental commander. In turn, the commanding officer of the Agency should have the delegated authority to make out and sign efficiency and fitness reports for all officers assigned for duty at the agency. This authority would require a change in the present administrative regulations, covering officers detailed to another department or agency.

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dovetailed with the departmental administration, instructions, orders, and regulations. The means is to locate a portion of the procedural drafters, who will retain their organizational identity, from the offices of the Quartermaster General, the Bureau of Supplies and Accounts, and the Deputy Chief of Staff for Materiel (or the Air Materiel Command) with the Materiel Agency directors. In this way, management and coordination advice may be offered by the Army Service, the Navy Bureau, and the Air Force Materiel Command; and likewise the desire for uniformity of methods and procedures may flow into the respective departmental communications media. If necessary, the Secretaries of the Army, Navy, and Air Force may direct that regulations, touching upon supply management in the area of Department of Defense Supply System Materiel, be finally approved by their assistants for business administration. A note of caution should be indicated. The headquarters offices should consist of only stenographic help and possibly three or four additional staff personnel. The growth of any larger staff organization is an action to be prevented in order that the function of the Quartermaster, the Chief of the Bureau of Supply and Accounts, and the Air Materiel Command may not be engulfed.

Possible alternatives: -- What has been suggested for management control over the various materiel agencies is frankly a compromise of military and civilian relationships within the military establishment. Having been steeped in Navy practices, which recognize the civilian responsibility for business administrations in the so-called "producer logistics" area, the writer espouses such a plan. There is the alternative of having direct military participation on

devotalled with the departmental administration, instructions, orders, and regulations. The means is to supply a portion of the procedural drafters, who will retain their organizational identity, from the offices of the Quartermaster General, the Bureau of Supply and Accounts, and the County Chief of Staff (or Commissioner for the Air Material Command) with the Material Supply Structure. In this way, management and coordination duties may be offered to the Army Service, the Navy Bureau, and the Air Force Material Command; and likewise the desire for uniformity of methods and procedures may flow into the respective departmental commodity and media. If necessary, the Secretaries of the Army, Navy, and the Air Force may direct that regulations, bearing upon supply management in the area of Department of Defense Supply System Material, be finally approved by their Secretaries for Secretary Administration. A note of caution should be indicated. The Secretaries' offices should consist of only stenographic data and possible issues of four additional staff personnel. The grants of the Larger-Staff Organization is an action to be prevented in order that the function of the Quartermaster, the Chief of the Bureau of Supply and Accounts, and the Air Material Command may not be obtained.

Possible alternatives: -- What has been expressed for management control over the various material supplies is having a compromise of military and civilian relationships within the military establishment. Having been assigned to Navy procedures, which recognize the civilian responsibility for military administrations in the so-called "producer logistics" area, the writer proposes such a plan. There is the alternative of having five [illegible]

the Directorate by authorizing the Quartermaster General, the Chief of the Bureau of Supplies and Accounts, and the Commander, Air Materiel Command, to select the military representatives as departmental directors on the directorate. This alternative is not recommended because it is considered that a better balance of control is achieved through the recommendation as set forth in exhibit 1.

There is one other prime consideration that may evoke considerable attack on the suggested plan; which is that the Directorate and the five directors may repeat the mistakes of the Munitions Board in that the members may become identified with the special interests of the service they represent. The Directorate, however, has no operating duties and responsibilities for the supply management of any category of materiel in the proposed Department of Defense Supply System. This danger can be obviated by an inclusive mission, in the form of a charter, granted over the signature of the Secretary of Defense direct to each Materiel Agency. The operational duties and responsibilities of the Materiel Agency will now be covered.

the Directorate by authorizing the Quartermaster General, the Chief of the Bureau of Supplies and Accounts, and the Commander, Air Material Command, to select the military [illegible] as departmental directors by the Directorate. This alternative is not recommended because it is considered that a better balance of control is achieved through the recommendation as set forth in exhibit 1.

There is one other prime consideration that may avoid considerable attack on the recommended plan which is that the Directorate and the five directors may repeat the [illegible] of the Munitions Board in that the members may become identified with the special interests of the service they represent. The Directorate, however, has no operating duties and responsibilities for the [illegible] management of any category of material in the proposed Department of Defense Supply System. This Council can be revisited by an indicative mission, in the form of a charter, granted over the signature of the Secretary of Defense direct to each Material Member. The [illegible] duties and responsibilities of the Material Agency will now be covered.

## CHAPTER IV

## PROPOSED ORGANIZATION FOR AN ARMED SERVICES MATERIEL AGENCY

It is not intended to prescribe a rigid organization for all Materiel Agencies, but rather to suggest some organizational concepts and relationships which will be found in each. The needs of each materiel category or segment of the Department of Defense Supply System will require adaptations to meet a given situation. For example, the Subsistence Materiel Agency will require an organizational element to provide coordination and control over its regional marketing offices. The same functions portrayed in exhibit 2 will be found at any of the Materiel Agencies, but in this chapter, it is intended to point out, and underscore the organizational relationships of each function.

Staffing of agency and succession to command:-- It must be borne in mind that each Materiel Agency is jointly staffed by military officers from each of the three departments. The assigned civilians will be under civil service regulations and will be recruited from the local Area Wage and Classification Offices. The tour of duty of the commanding officer will be for two years, to run concurrently for two fiscal years (1 July to 30 June), thus linking administrative responsibility and authority to the performance of two budget years. The deputy will be of a different service and will occupy that job for two years, and will then move upward to become the commanding officer for two years. The comptroller of the organization will be of the third service and will advance upward

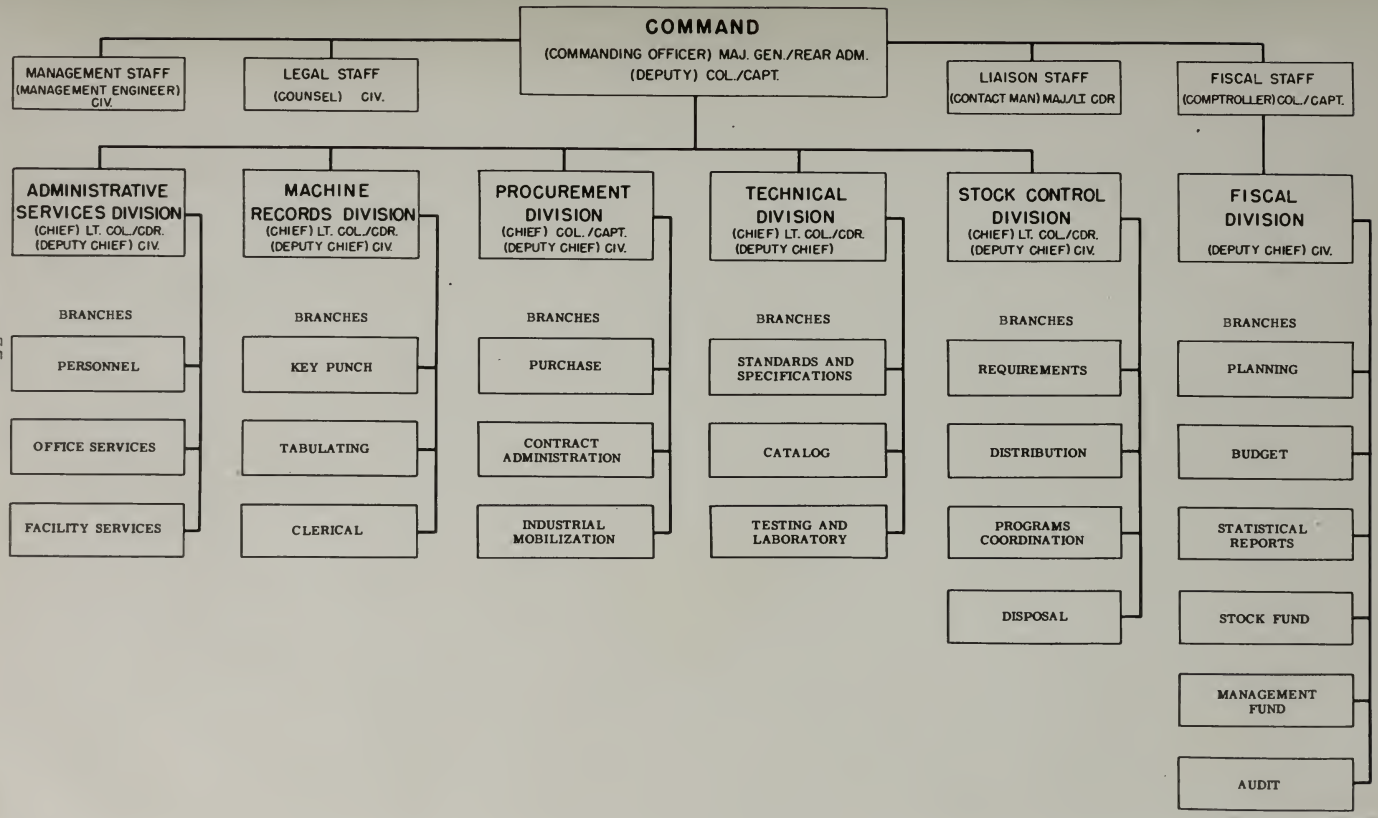
## CHAPTER IV

## PROPOSED ORGANIZATION FOR AN ARMED SERVICES MATERIEL AGENCY

It is not intended to prescribe a rigid organization for all Material Agencies, but rather to suggest some organizational concepts and relationships which will be found in each. The needs of each material category or segment of the Department of Defense Supply System will require adaptations to meet a given situation. For example, the Subsistence Material Agency will require an organizational element to provide coordinations and control over its regional marketing offices. The same functions portrayed in exhibit 8 will be found at any of the Material Agencies, but in this chapter, it is intended to point out, and endeavor the organizational relationships of each function.

Staffing of agency and succession to command.-- It must be borne in mind that each Material Agency is jointly staffed by military officers from each of the three departments. The employed civilians will be under civil service regulations and will be recruited from the local Area Type and Classification Offices. The tour of duty of the commanding officer will be for two years, to run concurrently for two fiscal years (1 July to 30 June), thus linking administrative responsibility and authority to the performance of two budget years. The deputy will be of a different service and will occupy that job for two years, and will then have passed to become the commanding officer for two years. The constitution of the organization will be of the third service and will always proceed

# PROPOSED ORGANIZATION CHART OF ARMED SERVICES _____ MATERIAL AGENCY




1 May 1953

each two years, becoming successively, deputy and finally, commanding officer. Training, coordination, integration, and rotation of the jointly staffed agency will thus be accomplished. It does not mean that an officer starting as a comptroller of the agency will be there for a period of six years, advancing through the successive stages to command. This length of duty is considered both desirable and necessary to provide continuity and experience for the job of administering such an organization. It would be expected that the Commanding Officer of each agency would be of the rank of Major-General or Rear Admiral. Such a rank is no more than commensurate with the responsibilities of the size of the job. For example, the subsistence agency will be responsible for buying, distributing and controlling funds and materiel with expenditures for consumption thereof being better than a billion dollars a year. The other Materiel Agencies will be only somewhat smaller in scope.

The personnel requirements of the remaining staff and division executives, as shown on exhibit 2, will be drawn one-third from each of the military departments. In the case of the Navy Department, both Marine Corps and Navy Supply Corps officers will be assigned interchangeably. The directorate of the Materiel Agency will be responsible for the requisition of officers from each military department.

Comments on the Staff Officers of an agency:-- As indicated on exhibit 2, the Comptroller is placed as a staff officer. He is the fact gatherer and interpreter to the Command. He can recommend, but he cannot act. He does, however, have line responsibilities over the fiscal division, which has been placed on the same level

each two years, becoming successively, deputy and finally, commanding officer. Training, coordination, integration, and rotation of the jointly staffed agency will thus be accomplished. It does not mean that an officer starting as a comptroller of the agency will be there for a period of six years, advancing through the successive stages to command. This length of duty is considered both desirable and necessary to provide continuity and experience for the job of administering such an organization. It would be expected that the Commanding Officer of each agency would be of the rank of Major-General or Rear-Admiral. Since a rank is no more than commensurate with the responsibilities of the size of the job. For example, the subsistence agency will be responsible for buying, distributing and controlling funds and material with expenditures for consumption thereof being better than a billion dollars a year. The other Material Agencies will be only somewhat smaller in scope.

The personnel requirements of the receiving staff and division executives, as shown on exhibit B, will be drawn one-third from each of the military departments. In the case of the Navy Department, both Marine Corps and Navy Supply Corps officers will be assigned interchangeably. The directorate of the Material Agency will be responsible for the requisition of officers from each military Department.

Comments on the Staff Officers of an agency:-- As indicated on exhibit B, the Comptroller is placed as a staff officer. He is the fact gatherer and interpreter to the Command. He can recommend, but he cannot act. He does, however, have first responsibilities over the fiscal division, which has been placed on the same level

as the other division in order to place his functional responsibilities of comptrollership equally with those of the other line division chiefs. The comptroller will have the responsibility of managing both the segments of the Department of Defense Stock Fund and Management Fund, which are allocated for carrying out the materiel a nd control function of the particular agency. He is the dollar man to manage the financial resources, entailed in buying and distributing materiel, and in the operating expenses of the particular agency. His specific relationship will be discussed under the division office comments. The Liaison Officer is also a staff officer to ensure the obtention of timely planning information from the Departmental Headquarters Offices. In short, this staff officer is a "bird dog retriever," and based on experience of Navy Supply Demand Control Points, he is highly essential. He bears one other function, that of the commanding officer's representative in visiting field supply activities to report back problems in connection with the distribution of materiel or the accounting, therefore a liaison contact man, if you will. The legal counsel is necessary for legal matters in regard to procurement controls. The management engineer is the organization and methods man responsible for devising, improving the internal methods and procedures by which the materiel agency will function.

Comments on division office relationships:-- The Fiscal Division office includes a Planning Branch which will have considerable relationships with the Program Coordination Branch of the Stock Control Division. The former will have the responsibility of placing the dollar tag on the planning information received by the

as the other division in order to place his functional responsibility of comptrollership equally with those of the other line division chiefs. The comptroller will have the responsibility of reporting both the segments of the Department of Defense Stock Fund and Management Fund, which are allocated for carrying out the material and control function of the particular agency. He is the dollar man to manage the financial resources, satisfied in buying and distributing material, and in the operating expenses of the particular agency. His specific relationship will be discussed under the divisional office comments. The Liaison Officer in this a staff officer to ensure the obtention of timely planning information from the Departmental Headquarters Offices. In short, this staff officer is a "bird dog retriever," and based on experience of Navy Supply Command Control Points, he is highly essential. He takes one other function, that of the commanding officer's representative in visiting field supply activities to report back problems in connection with the distribution of material or the accounting, therefore a liaison contact man, if you will. The legal Counsel is responsible for legal matters in regard to procurement separate. The management engineer is the organization and methods man responsible for devising, improving the internal methods and procedures by which the material agency will function.

Comments on division office relationships:-- The Fiscal Division office includes a Planning Branch which will have considerable relationships with the Program Coordination Branch of the Stock Control Division. The former will have the responsibility of placing the dollar tag on the planning information received by the

agency from the three military departments. The latter will place the quantities tag on amounts of materiel necessary to consummate the plan. It will probably be necessary to utilize a committee to screen and disseminate bits of planning information necessary for the operations of the other divisions. The Budget Branch will be responsible for the formulation, preparation and execution of the Agency's operating budget under the management fund as well as the preparation of budget reports for higher authority. The Statistics Reports Branch is responsible for statistical interpretation of class balance reports rendered by the fiscal supply activities, and for the preparation and interpretation of all general statistical data. The accounting for the supply system materiel and the agency operations will be handled by the Stock, and Management Fund Branches respectively. The Audit Branch is a very small activity to perform the internal audit of the activity; and whenever the agency is profferred invitations by the Army, Navy, or Air Force departmental inspectors, who may conduct inspections at their respective field activities, which stock the agency materiel, the Audit Branch staff will join with the inspector's forces in making the inspection. While the Fiscal Division has control over the dollar value of the stock fund, the Stock Control Division has the responsibility over the quantity control of materiel. Based upon stock status reports from the field and knowledge of plans, it will conduct the supply-demand review for each supply item, in order to determine how much is available, and how much needs to be bought. The Requirements Branch will compute the individual item requirements and the Distributions Branch will determine the distribution needs of when and where materiel will be used. The Disposal Branch, under Federal or

agency from the three military departments. The latter will place the quantities tag on amounts of material necessary to accomplish the plan. It will probably be necessary to utilize a qualified to screen and disseminate bits of planning information necessary for the operations of the other divisions. The Budget Branch will be responsible for the formulation, preparation and execution of the Agency's operating budget under the management from as well as the preparation of budget reports for higher authority. The Statistics Reports Branch is responsible for statistical interpretation of plan balance reports rendered by the fiscal supply activities, and for the preparation and interpretation of all general statistical data. The accounting for the supply system material and the general operations will be handled by the fiscal, and management fund branches respectively. The Audit Branch is a very small activity to perform the internal audit of the activity; and whenever the agency is preferred invitations by the Army, Navy, or Air Force Departmental Inspectors, who may conduct inspections at their responsible field activities, which stock the agency material, the Audit Branch staff will join with the Inspector's forces in making the inspection. While the Fiscal Division has control over the fiscal value of the stock fund, the Stock Control Division has the responsibility over the quantity control of material. Based upon stock status reports from the field and knowledge of plans, it will conduct the supply-demand review for each supply item, in order to determine how much is available, and how much needs to be bought. The Requirements Branch will compute the individual item requirements and the distributions branch will determine the distribution needs of when and where

Department of Defense disposal regulations, will dispose of damaged, obsolescent or excess materiel. The Programs Coordination Branch will ensure that plans received by the Agency are properly implemented; that special progress requirements of new outfittings or commissioning are provided for; that, based on space reports from field activities, there is a well-balanced utilization of space assigned to the materiel under the control of the agency; that stock status reports are regularly scheduled to provide an evenly balanced work load for the agency; and that field activities are provided with planning information as well as knowledge of expected deliveries from commercial contractors.

The Technical Division will have the responsibility in collaboration with the Supply Management Agencies of the Department of Defense, for specifying standards and specification according to the needs of the consuming units of all military departments. Not the least of all functions is the compilation and publication of a catalog to inform the consuming units the technical data of name, number, and description which will be used by them in requisitioning the materiel and will be used as the supply item identification in all supply operations by the field and Materiel Agency. Further, instructions will be published in the catalog as to issue restrictions or as to obtention of an item by local purchase means. There is one comment that must be made. Catalog data has been originated for use in supply operations by catalogers. When the data thus developed by the catalogers is not adaptable in supply operations, it should be made adaptable in order that it may be efficiently used. An example of adaptation needed is found in

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subsistence supply operations where for all purposes of financial and operating control, only two classes are necessary: perishable and non-perishable, rather than the ten classes presently specified for use. One important function of the Catalog Branch will be to list the standard unit price for each item of supply, for this standard price will be used in all accounting transactions while the materiel is in the system. These prices will have been developed by the Stock Fund Branch in collaboration with the Requirements Branch.

The Purchase Division will take the total quantity and dollar specified in a requisition by the Requirements Branch, and purchase in accordance with the Armed Services Procurement Regulations. They will be responsible for all dealings with contractors, including contract administration and the control of contract status reports. One of the most important functions of the Purchase Division will be to make referrals to the Technical Division in regard to approval or disapproval of deviations under specifications and standards. Another function is to make referrals to the Stock Division for concurrence, in regard to timely appropriateness to enter the market for total or only part of the cited demands. By having the technical and stock control divisions close at hand, correct judgment decisions can be quickly resolved. The lack of such technical and stock control integra tion has been one of the greatest defects to the successful operation of single service purchase assignments and agencies.[1] A separate unit of the Purchase

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[1]Munitions Boards, Condensation; "Single Department Procurement of Paint," Harvard University, Graduate School of Business Administration, August 1951, Conclusion 9, p. 20.

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[1] Munitions Boards, Condensation; "Single Department Procurement of Paint," Harvard University, Graduate School of Business Administration, August 1951, Conclusion 8, p. 80.

Division will be responsible for industrial mobilization planning.

The Machine Records Division will be responsible for performing all functions of the Agency as are adaptable to electric accounting machines, including stock status reports and the accounting under the stock and management funds. The Administrative Service Division will be responsible for personnel, office services of mail, file, and records, communication and other utilities, equipment procurement, maintenance and control, and office rent, upkeep and repair.

Only the major functions of a Materiel Agency have been indicated. All will be found in any of the Materiel Agencies, some emphasized in importance, and others deemphasized. Some Agencies will require different organizational units to meet the special operating functions and needs of the materiel. In general, exhibit 2 portrays the organizational character of a Materiel Agency in the Department of Defense Supply System.

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## CHAPTER V

## INTEGRATION OF ARMED SERVICES MATERIEL AGENCIES WITH EXISTING DEPARTMENTAL ORGANIZATIONS

Relationships of Materiel Agencies with field stocking activities:-- Armed Services Materiel Agencies are essentially materiel control points, managing, from a dollars and unit quantities standpoint, the inventories of the various categories of materiel in the Department of Defense Supply System. The agencies do not control the workload of the stocking activities in the field; This workload is controlled by the respective departmental plans; the numbers of men, posts, camps and stations, bases, airplanes, ships and divisions which will be operated during a fiscal year. These military plans are translated into budget terms and are approved, amended or modified, as the Congress appropriates funds to enable the budget to be carried out. Stocking activities of the three departments, be they depots, supply warehouses or small shop stores, (the reservoirs in the pipeline of supply) are geographically located, as materiel supporting activities, to effect either a wholesale or retail distribution service to the consuming units. These stocking activities are there to satisfy their customers' needs which have already been budgeted for. These needs are included in the personnel or maintenance and operating appropriations of the departments. So too, included in the same budget and often under the same types of appropriations, are the operating expenses of stocking facilities in performing their supply mission of issuing required materiel to the consuming units.

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There is, therefore, no cogent reason to shift the management

control responsibility of the Quartermaster General, the Chief of the Bureau of Supplies and Accounts, and the Air Materiel Commander over their respective stocking activities. They will, therefore, continue to budget for the money needs of their supply depots and provide them with operating funds from approved appropriations, approve their personnel ceilings, and be furnished in turn with management reports concerning the effectiveness of their physical handlings of materiel. This management control relationship is shown in Exhibit 3. The technical control of the methods and procedures by which the Department of Defense specified materiel will be accounted for by dollars, and by quantities, is surrendered into the hands of the appropriate Department of Defense Materiel Agency.[1] This is divided control, you say. Yes, it is, but not dangerously so. It must be remembered that these stocking activities have been generally located so as to best serve the military units of its service with materiel requirements. Regardless of how the Secretary of Defense specifies the materiel shall be controlled and accounted for, the consuming units are going to request their materiel needs and are going to get them; and the specified procedures of a Materiel Agency are not going to interfere one iota. Instead, there is every expectation that the customer's wants will be better satisfied, at least in the Navy experience with its supply system is any criterion. The technical control[2] relationships are shown in Exhibit 3 as well as the command control responsibilities.

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[1] Technical control over stock and accounting control procedures will remain within the departments for all materiel excluded from the Department of Defense Supply System.

[2] See p. 29 for the technical control functions.

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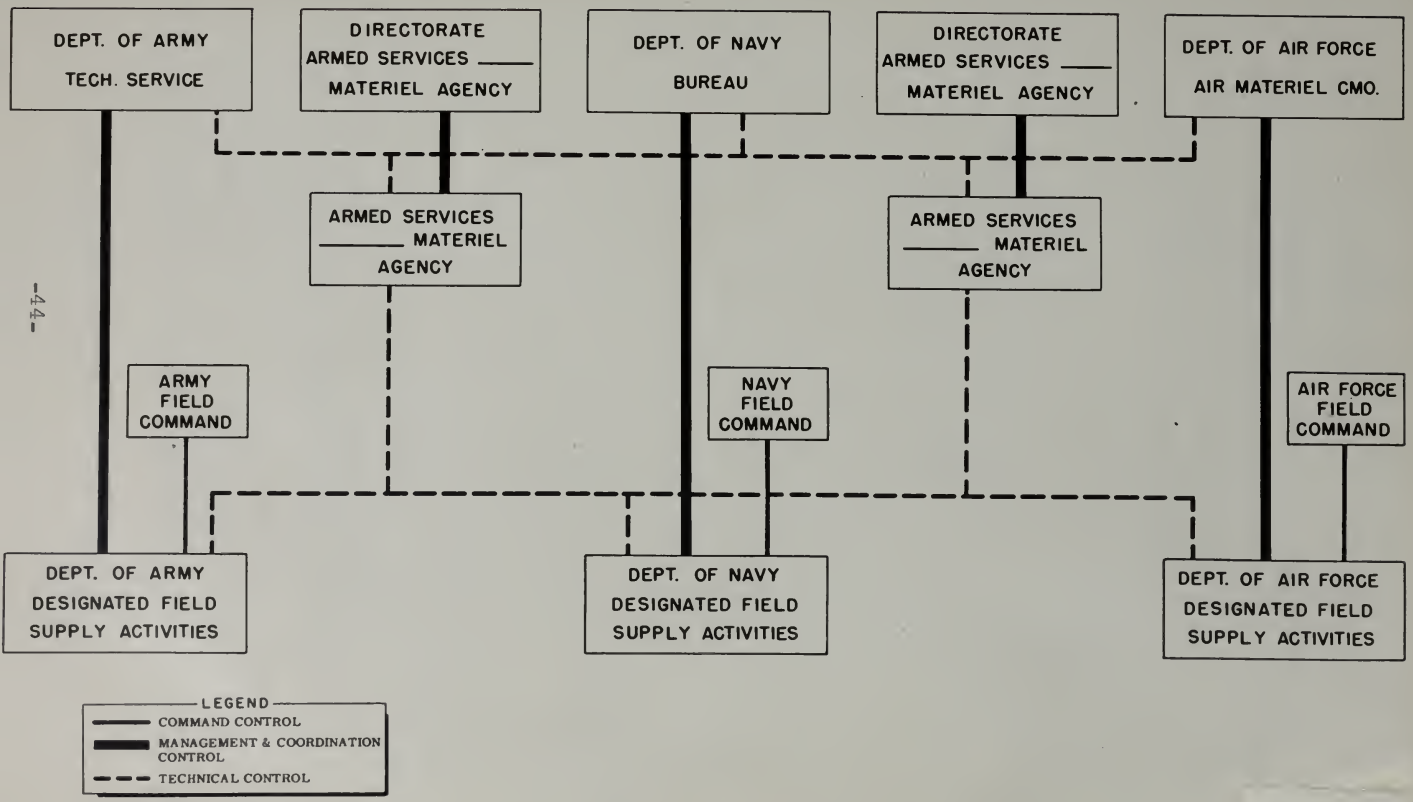
[1] Technical control over stock and accounting control procedures will remain within the departments for all material excluded from the Department of Defense Supply System.

[2] See p. 25 for the technical control functions.

EXHIBIT 3

# PROPOSED INTEGRATION OF ARMED SERVICES MATERIEL AGENCIES INTO EXISTING DEPARTMENTAL ORGANIZATIONS




1 May 1953

It should be remembered that procedures, emanating from the technical control responsibilities of a Materiel Agency, will find their way into the department supply regulations issued by the appropriate military department official, and will be followed by the service stocking activity as he would follow any other service regulation. This device goes a long way to achieve desired, uniform procedures. The Materiel Agencies will have no control over these stocking facilities, but only control of the materiel dollar-wise and quantity wise. The agencies' job is to pump the materiel needed by the military units, through the transportation system into the reservoirs, the stocking facilities. The agencies merely respond to the military plans and the resulting development of the military consuming units. In order to respond to materiel needs of the services, the Materiel Agency will have knowledge of the total departmental plans as to deployment of troops, ships, aviation squadrons, etc., and it will have the same planning knowledge on the geographic area basis. It further will have knowledge from each stocking activity of stock status information, that is of the stocks on hand, issued, obligated, and to be received. A reporting stocking activity is one of sufficient size from the standpoint of average stock loads carried, as to make it worth while to be included in the reporting system. Perhaps one Materiel Agency will specify that a stocking activity, having a million dollars of inventory, should be in the stock reporting system. Another materiel agency may not want to include in its stock reporting system any activity less than five millions of dollars. The decision must remain in the hands of the Materiel Agency, probably based on the number of

It should be remembered that procedures, emanating from the technical control responsibilities of a Material Agency, will find their way into the department supply regulations issued by the appropriate military department official, and will be followed by the service stocking activity as he would follow any other service regulation. This device goes a long way to achieve desired, uniform procedures. The Material Agencies will have no control over these stocking facilities but only control of the material dollar-wise and quantity wise. The agencies' job is to pump the material needed by the military units, through the transportation system into the reservoirs, the stocking facilities. The agencies merely respond to the military plans and the resulting development of the military consuming units. In order to respond to material needs of the services, the Material Agency will have knowledge of the total departmental plans as to deployment of troops, ships, aviation squadrons, etc., and it will have the same planning knowledge on the geographic area basis. It further will have knowledge from each stocking activity of stock status information, that is of the stocks on hand, issued, obligated, and to be received. A reporting stocking activity is one of sufficient size from the standpoint of average stock loads carried, as to make it worth while to be included in the reporting system. Perhaps one Material Agency will specify that a stocking activity, having a million dollars of inventory, should be in the stock reporting system. Another material agency may not want to include in its stock reporting system any activity less than five millions of dollars. The decision must remain in the hands of the Material Agency, probably based on the number of

wholesale and large retail distribution outlets necessary to provide stocks for customer needs.

Geographic distribution on an area basis:-- Each wholesale supply activity, the supply depots for the common-use materiel as specified, will furnish required materiel to all service consuming units located in its specified geographic area. Each supply depot will have its supply support mission, that is the activities to whom it will issue materiel, specified by the approprate Materiel Agency. For example, the Naval Supply Center, Norfolk, Va., under the management control of the Bureau of Supplies and Accounts of the Navy, would be responsible for issuing within the Norfolk area all subsistence to Army and Air Force consuming units, as well as its presently assigned issuing mission for Naval activities. To carry the concept one step further, all military activities in the Norfolk area would receive their medical supply support from perhaps the Army Depot at Belle Meade, New Jersey, under a support mission established by the Armed Services Medical Materiel Agency. In this latter case, the Naval Supply Center, Norfolk, Va. might become a retail outlet mission for certain small stocks of a few specified medical supply items in order to furnish quick supply support to Navy ships. But again, such secondary support mission would be designated by the Armed Services Medical Materiel Agency.

Materiel control and movement:-- Exhibit 4 has diagrammatically portrayed how the materiel will be controlled from a quantity and stock fund standpoint. Procurement contracts will be issued by the

wholesale and large retail distribution outlets necessary to provide stocks for customer needs.

Geographic distribution of [illegible]:— Each wholesale supply activity, the supply depots for the commodity material as specified, will furnish required material to all [illegible] commodity units located in its specified geographic area. Each supply depot will have its supply support mission, that is the activities to whom it will issue material, specified by the [illegible] Material Agency. For example, the Naval Supply Center, Norfolk, Va., under the management control of the Bureau of Supplies and Accounts of the Navy, would be responsible for issuing within the [illegible] area all subsistence to Army and Air Force commodity units, as well as its presently assigned issuing mission for Naval activities. To carry the concept one step further, all military activities in the Norfolk area would receive their medical supply support from [illegible] the Army Depot at Belle Meade, New Jersey, under a support mission established by the Armed Services Medical Material Agency. In this latter case, the Naval Supply Center, Norfolk, Va. might become a retail outlet mission for certain small stocks of a few specified medical supply items in order to furnish which supply support to Navy shops. For again, such secondary support mission would be designated by the Armed Services Medical Material Agency.

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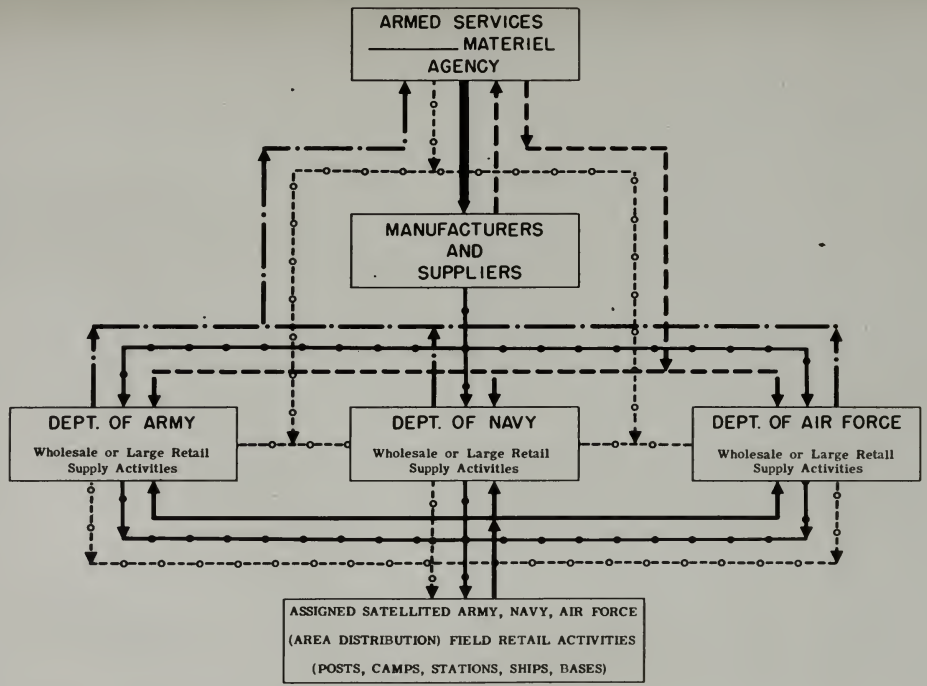
# PROPOSED REPORTS CONTROL AND MOVEMENT OF MATERIEL UNDER ARMED SERVICES MATERIEL AGENCIES




LEGEND

- PROCUREMENT ORDERS.
- CONTRACT STATUS REPORTS & REPORTS OF SCHEDULED DELIVERIES.
- FLOW OF MATERIEL.
- STOCK STATUS REPORTS.
- SATELLITE REQUISITIONS.
- REDISTRIBUTION, AREA & CROSS AREA; AND/OR DISPOSAL.

1 May 1953

Material Agency to a manufacturer, processor or supplier who in turn will report back the compliance under the schedule of deliveries. Notification of expected delivery of materiel to a stocking activity will have been made by the Materiel Agency at the time of the contract, so that final notification will be of the delivery date. Since the materiel is being procured under the available cash balance of the Department of Defense Stock Fund, held by the Materiel Agency under an apportionment by the Comptroller of the Department of Defense, it will be necessary for the Materiel Agency to allocate obligating authority to each recipient stocking activity, who will receive a portion of materiel under the Materiel Agency's contract. Upon receipt of materiel and payment of the contractor's invoice, by public voucher, the materiel is taken up in the Department of Defense Stock Fund.

Each first recipient of materiel from a contractor will generally be in the stock reporting system, by which stock information is reported back to the Materiel Agency. It is by this stock status data (materiel on hand, replenishable issue, nonreplenishable issue, obligations and expected receipts)[3] as well as other planning data that the Materiel Agency may be able to compute realistic requirements, procure and distribute the materiel through the system. The reporting of stock status information is indicated in Exhibit 4.

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[3] Certain Materiel Agencies may require additional data, such as quantity of reparable items on hand.

Material Agency to a manufacturer, processor or supplier who in turn will report back the compliance under the schedule of deliveries. Notification of expected delivery of material to a stocking activity will have been made by the Material Agency at the time of the contract, so that final notification will be of the delivery date. Since the material is being procured under the applicable [illegible] of the Department of Defense Stock Fund, held by the Material Agency under an apportionment by the Comptroller of the Department of Defense, it will be necessary for the Material Agency to allocate obligating authority to each [illegible] stocking activity, who will receive a portion of material under the material agency contract. Upon receipt of material and payment of the contractor's invoice, by public voucher, the material is taken up in the Department of Defense Stock Fund.

Each first receipt of material from a contractor will generally be in the stock reporting system, in which stock information is reported back to the Material Agency. It is in this stock status data (material on hand, [illegible] issue, [illegible] issue, obligations and expected receipts)[3] as well as other planning data that the Material Agency may be able to compute realistic requirements, procure and distribute the material through the system. The reporting of stock status information is indicated in Exhibit 2.

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[3] Certain Material Agencies may require additional data, such as quantity of reparable items on hand.

Sometimes rather than specify contractor delivery to a certain stocking point, the stock status data will indicate that there is sufficient materiel on hand, and therefore, none will be delivered under a contract. Instead, one stocking activity having more than enough will be directed to ship part of its stock of certain items to another stocking activity to fill the latter's materiel needs. This is the process of redistribution. If plans are adhered to and mistakes are not made by the Materiel Agency, no redistribution should be necessary; situations arise, however, causing the shifting of military forces, and necessitating the unanticipated movement of materiel into another geographic area. Since such redistributions use up departmental transportation appropriations, the directorate of the Materiel Agencies should examine critically each redistribution action to see whether the Materiel Agency was at fault, and whether such mistake can be corrected for the future. But no matter how perfect the operations of the Materiel Agency, some redistribution will occur by changing military plans, beyond its control. Therefore, each department must reserve certain small amounts of its transportations appropriation for allocation and use by the Materiel Agency. The reporting schedule stock status data is specified by the Materiel Agency, calling for certain classes, names of items or other groupings to be reported on a definitely established time basis.

The materiel will then be issued to retail activities based on requisitions furnished by them. The materiel will be transferred in the Department of Defense Stock Fund and stay there until it is issued to the consuming units based for support on the retail activity. This is the enunciated objective of the Department of Defense Comp-

Sometimes rather than specific contractor delivery to a specific [illegible] point. The stock status file will instead show items in excess material on hand, and therefore, none will be delivered under a contract. Instead, any stocking activity [illegible] will be directed to ship part of its stock or [illegible] to enable the activity to fill the latter's material needs. This is the process of redistribution. If items are ordered by the material agency, no redistribution should be necessary [illegible] situations arise. However, [illegible] the activities of [illegible] necessitating the [illegible] movement of [illegible] Since such redistributions [illegible] transportation appropriations, [illegible] should examine critically [illegible] the material agency [illegible] for the future. [illegible] the material agency, some redistribution will [illegible] plants, beyond its control. Therefore, [illegible] certain small amounts of its transportation [illegible] and use by the material agency. The [illegible] status file is specified by the material agency, [illegible] classes, [illegible] of items or other [illegible] established time cycle.

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troller.[4] The Navy will be immediately able to comply with the objective, for it is exactly what the Navy now does. Both the Army and the Air Force can follow out the objective, but only on a progressive basis. But with aid from the Materiel Agency, and Navy "know-how", the objective can probably be achieved at a faster rate under this proposed Department of Defense Supply System concept. The idea of the objective is to place materiel costs of operations on an accrual basis, so that annual expenses, at least for the common-use items, will exactly match annual budget needs. This point will be expanded in the following chapter. Thus, materiel will be carried in the stock fund until issued for use, at which time it is charged against the appropriate departmental annual appropriation.

The wholesale stocking activity will transfer materiel in the stock fund to the accountable supply officer in accordance with quantities specified in the requisition. The designated wholesale supply activity will call for the requisitions on a scheduled basis and will have a redistribution and disposal function over the retail stocking activities. When a retail supply activity has an imbalance of materiel for certain items, it will report this fact to the wholesale depot, who will be authorized to redistribute the items among other stocking activities for which it is responsible, or order the items returned to its control. Likewise, the depot will have authority to oversee the disposal of materiel under authority delegated by the Materiel Agency.

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[4] Department of Defense Comptroller, Proposed Stock Fund Regulations, latest edition, December 1952.

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[4] Department of Defense Comptroller, Proposed Stock Fund Regulations, latest edition, [illegible].

Anticipation of points of criticism of area distribution:--
The concept of area distribution, proposed herein, accomplishes cross-servicing which has been an often repeated objective of Department of Defense Unification. The question will probably arise as to performing a distribution mission for another service other than the one whose costs of the servicing is presently being included in its own departmental budget. The answer to the critics is that the Army, Navy, or Air Force presently budget their supply services on the basis of tons handled through the distribution pipeline, and will continue to do so regardless of whether 5, 10, or 15 percent of the tons handled ultimately end up being consumed by a sister service. The second major criticism may arise from fears of favoritism in materiel being issued to retail stocking activities of the same service as the wholesaler. The answer is that the materiel is under the stock fund and belongs to no service until issued for immediate consumption. Ordinarily in the common-use area, rationing will be unnecessary, except in very unusual cases, and perhaps only momentarily for a few items of supply. The cause will be a mistake made by the Materiel Agency, or by a sudden urgency, such as the outbreak of the Korean War, when materiel was conserved, and flowed to the West Coast distribution points, earmarked for overseas issue. In any event, under the system contemplated, should a rationing need arise, the Materiel Agency could establish any and all types of priorities, based on requests from the individual department or the Joint Chiefs of Staff. The third major criticism will probably come from those who are unfamiliar with the workings of the stock fund and who do not

Anticipation of points of criticism of area distribution:—

The concept of area distribution, proposed herein, contemplates greater servicing which has been an often repeated assertion of Department of Defense Unification. The question will probably arise as to performing a distribution mission for another service paper than the one whose costs of the servicing is presently more reduced to its own departmental output. The answer to that criticism is that the Army, Navy, or Air Force presently helped their supply services of the basis of tons handled through the distribution pipeline, and will continue to do so regardless of whether 4, 10, or 15 percent of the tons handled ultimately and up being consumed by a sister service. The second major criticism may arise from the [illegible] of favoritism to material being issued to retail stocking activities of the same service as the consumer. The answer is that the material is under the stock fund and belongs to an [illegible] for immediate consumption. Ordinarily in the [illegible] [illegible] will be unnecessary, except in very unusual cases, and [illegible] only conceptually for a few items of supply. The [illegible] will be a [illegible] made by the Material Agency, or by a [illegible], such as the [illegible] of the Korean War, when material was [illegible], and flowed to the West Coast Distribution points, [illegible] for [illegible] issue. In any event, under the system contemplated, should a [illegible] need arise, the Material Agency could [illegible] and all types of priorities, based on requests from the individual department or the Joint Chiefs of Staff. The third major criticism will probably come from those who are unfamiliar with the workings of the stock fund and who is not

comprehend the desirability of having all common-use materiel carried in a single stock fund, the Department of Defense Stock Fund, which is the subject of the next chapter.

## CHAPTER VI

## ACCOUNTING CONTROL OF MATERIEL BY USE OF A DEPARTMENT OF DEFENSE STOCK FUND

Nature of the Department of Defense Stock Fund:-- All materiel in the Department of Defense Supply System will be held in the Department of Defense Stock Fund until issued for use. The fund is of a revolving type in that it is charged with the cost of all stores procured and credited with the value of all issues or sales made from the fund. The reason for using a fund is contained in the following statement made by the Navy to the House and Senate Appropriations Committees in December of 1951: "If a common-use item were paid for at the time of purchase with the many different appropriations and distributed with them in mind, requiring the maintaining of financial differentiation all along the line, the work of procurement, distribution, accounting, stock control warehousing, etc., would be markedly increased."[1] That statement epitomizes the situation of supply of common-use items among the three military departments. If it has no other result, the use of the fund should cut down the costs of performing the service functions mentioned above. As a working capital fund, the cash of the Department of Defense Stock Fund will be used to buy stores of materiel which will be "sold" to the using activities of the Department of Defense who will use their authorized appropriations to pay for the stores which are drawn only for actual consumption. In effect, the

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[1]"The Navy Stock Fund and How It Works," Monthly Newsletter, Bureau of Supplies and Accounts, Navy Dept., May 1952, p. 11.

CHAPTER V

ACCOUNTING CONTROL OF MATERIEL OF THE DEPARTMENT OF DEFENSE STOCK FUND

Nature of the Department of Defense Stock Fund.-- All materiel in the Department of Defense Supply System will be held in the Department of Defense Stock Fund until issued for use. The Fund is of a revolving type in that it is charged with the cost of all stores procured and credited with the value of all issues or sales made from the fund. The reason for using a fund is contained in the following statement made in the Navy before House and Senate Appropriations Committees in February of 1949. "If a centralized item were held for at the time of issuance with the consolidated appropriations and distributed with them to units, requiring the maintenance of financial differentiation along the line, the work of procurement, distribution, accounting, stock control, warehousing, etc., would be manifold increased."[1] This statement epitomizes the situation or problem of command as Stock among the three military departments. It is not as often cited, however, the use of the fund should not take the place of performing the separate functions mentioned above. As a working capital fund, the cash of the Department of Defense Stock Fund will be used to buy stores of materiel which will be "sold" to the using activities of the Department of Defense who will use funds authorized appropriations to pay for the stores which are drawn only for actual consumption. In effect, the

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[1]"The Navy Stock Fund and How It Works," ... Baxter, Bureau of Supplies and ...

Army, Navy, and Air Force consuming activities are on a consumption budget, in so far as their maintenance and operation appropriations are concerned, and only material which will be used, within the fiscal year will be "bought." The ability to perform accrual accounting is thus made available to the Army and Air Force in the same way that the Navy now accrues such materiel expenses. In place of buying materiel which will not be used except in succeeding fiscal years, the military departments will use their maintenance and operation appropriations for materiel which is used during the fiscal years.

The establishment of a Department of Defense Stock Fund:-- The National Security Act, as amended in 1949, provides in Section 405 for:[2]

> ---the business type operations of activities in the Department of Defense which most readily lend themselves to such arrangement. The section covers inventories of stores, supplies, materiel, and equipment (known as stock funds)--- In each instance, the stores, supplies, materiels, and equipment included in such inventories---are those which the Secretary of Defense may designate. Initially, items in inventories would be standard stock or common-use items. This section is not intended to require that all items stocked by the military services would be included in this type of inventory.

Section 405 constitutes a directive to the Secretary of the Treasury to honor the request of the Secretary of Defense to establish the working capital fund accounts on the books of the Treasury Department. Section 405 (d) states:[3]

> The Secretary of Defense is authorized to provide capital for such working-capital funds by capitalizing inventories on hand and with the approval of the President, by transfer, until December 31, 1954, from unexpended

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[2]Harry M. DeWitt, Jr., Comptrollership in the Armed Forces, Institute of Engineering, Washington, D. C., May 1952, p. 56.

[3]Title IV, Public 216, 81st Congress, 1st Session.

Army, Navy, and Air Force consuming activities are on a consumption budget, in so far as their maintenance and operation appropriations are concerned, and only material which will be used, within the fiscal year will be "bought." The ability to perform general accounting is thus made available to the Army and Air Force in the same way that the Navy now accounts such material [illegible]. The place of buying material which will not be used [illegible] in succeeding fiscal years, the military departments will [illegible] and operation appropriations for material which is used during the fiscal years.

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[2] Harry M. Dewitt, Jr., Comptrollership in the Armed Forces, Institute of Engineering [illegible]

> balances of any appropriations of the military departments not carried to the surplus fund of the Treasury: PROVIDED, that no deficiency shall be incurred in any such appropriations as a result of any such transfer--"

It is interesting to note that spelled out in the law, enacted by Congress is practically the same as proposed in this paper. The establishment of a single Department of Defense Stock Fund is thus within the authority of the Secretary of Defense. It would be expected that as a matter of good relations, the House and Senate Appropriations and Armed Services would be consulted before the fund was initiated. The beauty of the establishment of the Stock Fund will require neither authorizing legislation nor any augmenting appropriations. The inventories of existing departmental stocks of common-use items will be taken up and capitalized into a fund account of the Department of Defense Stock Fund. The cash account will be augmented by transfers from the cash account of the existing Navy Stock Fund and from appropriations of the Army and Air Force. All take up of such inventories should be without reimbursement to appropriation or fund, because any on hand inventories at the beginning of a fiscal year have been accumulated by prior year appropriations, and since the intent of the stock fund is to place appropriation expenses in a current budget basis, no reimbursement can be allowed without defeating that objective. Also, for the same reason of currency of the budget, the Department of Defense Stock Fund or any segment thereof should begin at the commencement of a fiscal year. It is estimated that there are at present in the Military Departments common-use items, having a value of over four billions of dollars, susceptible to capitalization in a Department of Defense Stock Fund. It is well known that Congress has severely criticized the Military for maintaining large inventories of materiel. Whether

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the Military [illegible]

anything can be done to reduce the stock levels, at least in the common-use area, awaits a consolidation under the Department of Defense Stock Fund with a breakdown by Materiel category segment.

Control of the Stock Fund Cash Account:-- The Department of Defense Comptroller will have general administrative supervision over the stock fund. As cash credits are received into the cash account from charges to appropriations on issue of materiel, the Comptroller will apportion cash amounts to each Materiel Agency as obligational authority, permitting each to make contracts to obtain materiel. Eash Materiel Agency becomes, in effect, a program manager for the cash resources of the fund, as received. In turn, each project manager(the Materiel Agency) will allocate these cash resources to the prime recipient of materiel, direct from the contractor. The allocations, obligation, and control of the cash accounts is shown in Exhibit 5. As the materiel is received, the bill is paid, the cash account allocation is charged and the stock fund stores account is credited. Status reports of the cash account will be rendered by the stocking activities to each Materiel Agency, and each Agency will report to the Office of Secretary of Defense, Comptroller, the cash available, obligated, and expenditures against the cash of the stock fund. The above process is a brief description of the fiscal accounting.

Control of the Stock Fund Account:-- After materiel is taken up in the fund stock account, a monthly report, called a stores return, will be rendered by every accountable officer having a balance of unexpended stock fund materiel on hand. The stores return is actually a documentation of all receipt and expenditure invoices of materiel as well as all internal transfers. The proposal of this paper calls for all stores returns to be forwarded to the

anything can be done to reduce the stock levels, at least in the common-use area, omits a consolidation under the Department of Defense Stock Fund with a breakdown by material category account.

Control of the Stock Fund Cash Account.— The Deputy of Defense Comptroller will have general administrative supervision over the stock fund. As cash credits are received into the cash account from charges to appropriations on issue of material, the Comptroller will apportion cash amounts to each material agency as obligational authority, permitting each to make contracts to obtain material. Each material agency becomes, in effect, a program manager for the cash resources of the fund, as required. In turn, each project manager (the material agency) will allocate these cash resources to the prime recipient of material, direct from the contractor. The allocations, obligations, and control of the cash accounts is shown in Exhibit 3. As the material is received, the bill is paid, the cash account allocation is charged and the stock fund stores account is credited. Other reports of the cash account will be rendered by the Director, Statistics to each material agency, and each agency will [illegible] the office of Secretary of Defense, Comptroller, the cash [illegible] obligated, and expenditures against the cash of the stock fund. The above process is a brief description of the fiscal [illegible].

Control of the Stock Fund Account.— Other material is taken up in the fund stock account, a normally [illegible] called a stores return, will be rendered by every [illegible] officer having a balance of unexpended stock fund material on hand. The stores return is actually a documentation of all receipt and expenditure involves of material as well as all internal transfers. The proposal

Navy Regional Accounting Offices, regardless of whether they originate in an Army, Navy or Air Force stocking activity. Since the Navy has had a tremendous amount of experience in performing the auditing and reconciliation of stores under the stock fund, it is logical to call upon the Navy Regional Accounting Offices to perform the work of consolidation of accounting under the Department of Defense Stock Fund. The additional cost involved in this extra work can be equitably adjusted in the payments of changes for the agency operations under the Department of Defense Management Fund as covered in Chapter VII.[4] While the flow of the stores returns summaries is not shown on Exhibit 5, it would be expected that the respective Navy Regional Accounts Offices would make consolidated summary reports of the stores balance sheets to the office of Secretary of Defense Comptroller. He would thus receive data of the total money balance of inventories in the stock fund.

Each stocking activity would also render via the Navy Regional Accounts Offices a balance sheet breakdown by the materiel categories, or inventory segment, according to the program manager (the Materiel Agency) charged with inventory control responsibility. This breakdown would be undocumented, but would be class totals for each segment. This breakdown is easily accomplished because each stock item in the Department of Defense Stock Fund would have a designating symbol on the front of the stock number. All dollar accounting of that stock item and of the other items of a class will be accumulated and run through a class balance section of the supply office. Each month the class balance sheet total by segment

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[4] See Chapter VII, p.62

Navy Regional Accounting Offices, [illegible] of whether they originate in an Army, Navy or Air Force [illegible]. Since the Navy has had a tremendous amount of experience [illegible] the auditing and reconciliation of [illegible] fund, it is logical to call upon the Navy Regional Accounting Offices to perform the work of consolidation of accounting under the Department of Defense Stock Fund. The additional cost involved in this extra work can be equitably adjusted in the [illegible] for the agency operations under the Department of Defense [illegible] fund as covered in Chapter VII.[4] While the flow of the [illegible] returns summaries is not shown on Exhibit [illegible], it shall be [illegible] that the respective Navy Regional Accounting Offices [illegible] consolidated summary reports of the stores balance sheets to the office of Secretary of Defense [illegible], [illegible] the [illegible] of the total money balance of inventories in the [illegible] fund.

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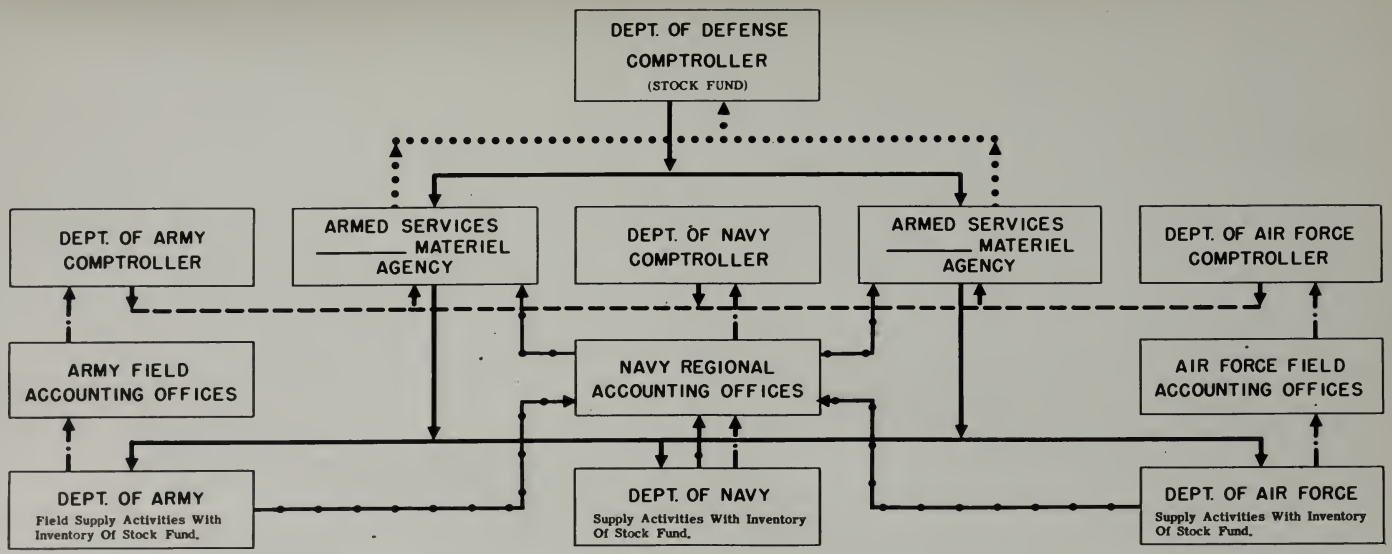
[4] See Chapter VII, p.[illegible]

# PROPOSED ACCOUNTING CONTROL OF DEPARTMENT OF DEFENSE STOCK FUND




LEGEND

- STOCK FUND APPORTIONMENT & FIELD REALLOCATION TO LIQUIDATE MATERIEL OBLIGATIONS.
- STORES RETURNS & BALANCE SHEET RECONCILIATION & SUMMARIZATION.
- EXPENDITURES FROM STOCK FUND AGAINST DEPARTMENTAL APPROPRIATIONS.
- RECONCILIATION OF EXPENDITURES BY APPROPRIATION & STOCK FUND SEGMENTS.
- SUMMARY REPORTS OF STOCK FUND CHARGES & CREDITS.

1 May 1953

and class, balanced with the stores return balance sheet, will be rendered to the Navy Regional Accounts Offices for consolidation and forwarding to the appropriate Materiel Agency. The agency is thus provided with financial information of the segment of the Stock Fund for which it is the program manager. This type of data can also be correlated to the stock status data reported to the Materiel Agency.

Exhibit 5 shows for simplicity purposes, the expenditures charges against the respective departmental appropriations being reported direct to the military department comptrollers. Probably a better plan would call for the appropriations charges, as documented in the stores returns of each stocking activity, to be summarized and forwarded by the Navy Regional Accounts Offices. In either event, a reconciliation should be effected by the Office of Secretary of Defense, Comptroller, of all charges and credit to the Department of Defense Stock Fund, both as a grand total and by the inventory segment.

To the uninitiated, the flow of accounting data and control of the Department of Defense Stock Fund by accounting means, may seem complex and cumbersome;however,be assured that it is necessary and desirable for financial control of inventory management by the top administrators. It is possible,further,that the accounting data accumulated can be improved by orienting the fidelity aspects of accounting control to those aspects of administrative property accounting.Besides the result of better financial management of the stock fund inventories,it will be possible to give the Congress each year: a business-like financial balance sheet on a comparative basis with a breakdown into assets of cash,accounts receivable,and inventories,and liabilities of accounts payable,reserves,and capitalization of the fund;and also an income and expense statement.All statements will be completely documented by supporting financial schedules

and clerk, balanced with the stores return balance sheet, will be rendered to the Navy Regional Accounts Offices for consolidation and forwarding to the appropriate Material Agency. The agency is thus provided with financial information of the segment of the Stock Fund for which it is the program manager. This type of data can also be correlated to the stock status data reported to the Material Agency.

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## CHAPTER VII

## A DEPARTMENT OF DEFENSE MANAGEMENT FUND FOR OPERATION OF MATERIEL AGENCIES

Authority for management fund:- As we have recognized, the Secretary of Defense has authority to establish a Department of Defense Stock Fund, but it is questionable that he has the power under Section 406 of the National Security Act Amendment of 1949 to establish a Management fund for the expenses involved in the operation of the Materiel Agencies. Section 406, Title IV of the National Security Act provides:

> (1) Accounts for the individual operations to be financed under the -- management funds shall be established only upon approval by the Secretary of Defense.
> (2) Expenditures may be made from said management funds under such regulations as may be prescribed by the Secretary of Defense.

The value of a management fund to provide a means for simplifying administration of financial operations to be financed by three different appropriations, wherein expenditures cannot be readily allocated to such appropriations initially, has already been recognized by the Munitions Board staff study of subsistence.[1] Where that study contemplates using the management funds for all servicing expenses arising from the control, as well as the physical receipt, storage and issue of materiel, this paper proposes using a Department of Defense Management Fund only for the expenses entailed in operating the Materiel Agencies. Accounting for all expenses of supply services for materiel in the common-use area under one management fund would entail a complex accounting system which could cut across the manage-

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[1] Op. cit., p.13

CHAPTER VII

## A DEPARTMENT OF DEFENSE MANAGEMENT FUND FOR OPERATION OF EXCESS MATERIAL

Authority for Management Fund:- As we have recognized, the Secretary of Defense has authority to establish a Department Defense Stock Fund, but it is questionable that he has the power under Section 408 of the National Security Act Amendment of 1949 to establish a Management Fund for the expenses involved in the operation of the Material Agencies, Section 408, Title IV of the National Security Act provides:

(1) Accounts for the industrial operations to be financed under the [illegible] Management Funds shall be established only upon approval by the Secretary of Defense.

(2) Expenditures may be made from such Management Funds under such regulations as may be prescribed by the Secretary of Defense.

The value of a management fund is [illegible] simplifying administration of financial operations to be financed by three different appropriations, whereas expenditures [illegible] subject to such appropriations initially, [illegible] or the Budgetary Bureau's staff study of [illegible]. [illegible] contemplates using the management fund for all [illegible] expenses arising from the control, as well as the [illegible], storage and issue of material, this [illegible] of the [illegible] Management Fund only for the expenses [illegible] in operating Material Agencies. [illegible] material in the [illegible] fund [illegible] tail a complex accounting system [illegible] the manage-

ment control of the departmental stocking activities, and would, in the opinion of the writer, furnish no more management data to the departments that is now being furnished. Therefore a single manangement fund for operating only the Materiel Agencies is proposed in this paper.

How the fund will work:- The Assistant Secretary of Defense Comptroller will be charged with the over-all control of the management fund under regulations approved by the Secretary of Defense.[2] At the time the Materiel Agencies begin operations (1 July of a new fiscal year) the comptroller will allocate an allotment of cash under the management fund, to each Materiel Agency. The initial cash will be provided by transfer from the departmental appropriations concerned with payments of supply services. In the case of the Navy, the appropriation is: "Service-wide Supply and Finance." As we have seen, the Secretary of Defense has the authority until 31 December 1954, to direct such transfers when they are for purposes of revolving and management funds. The Materiel Agency will use the cash so provided by the O S D Comptroller, to pay for personnel services, utilities, rent, repairs, maintenance and such other services involved in the operating of the agency. Periodically, perhaps once a quarter or half year, but depending on the obligational needs for funds by the agency, the departments will charge their respective appropriations and credit the Department of Defense Management Fund. The basis for such charges and credits will be the percentage issues received by a department during the

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[2] Regulations covering the operations of Management Funds of the Department of Defense, Office of Secretary of Defense, Washington, D.C. 27 June 1950.

ment control of the departmental [illegible] activities, and would, in the opinion of the writer, furnish no more management data to the departments than is now being furnished. Therefore a single Management Fund for operating only the Material Agencies is proposed in this paper.

<u>How the Fund will work.</u>- The existing industrial plants of the Defense Establishment will be operated within the overall revolving Defense Management Fund under regulations approved by the Secretary of Defense.[2] At the time the Material Agencies begin operations (1 July of a new fiscal year) the Secretary will allocate an allotment of cash under the Management Fund, to each Material Agency. The initial cash will be provided by transfers from the departmental appropriations concerned with procurement of supply materials, in the case of the Navy, the appropriation is: "Servicewide Supply and Finance." As we have seen, the Secretary of Defense has the authority, until 31 December 1954, to direct such transfers when they are for the purposes of revolving and management funds. The Material Agency will use the cash so provided by the O.S.D. [illegible] to pay for personnel services, utilities, rent, repairs, maintenance and such other services involved in the operation of the Agency. Periodically, perhaps once a quarter or half year, [illegible] the additional needs for funds of the several [illegible] charge their respective appropriations and credit the Defense Management Fund. The basis for [illegible] will be the percentage [illegible]

[2] Regulations covering the operations [illegible] of the Department of Defense, Office of the Secretary of Defense, Washington, D.C., 27 June 1952.

stated period. For example, if the Army received for consumption, 40 percent of all medical materiel issued during a quarter, it would be charged for 40 percent of the costs of operating the Armed Services Medical Materiel Agency. Probably the charges against the departmental appropriation would be a little more than cost in order to build up the cash portion of the Management fund to the point that there was no question of over-obligation during the lag between payment for services and receipt of funds. For reasons of simplification the operating expenses of the several Materiel Agencies will be totalled so that only one periodic payment to the Management fund by each military department should be necessary. It will be recalled that the Navy Regional Accounts Offices is performing an accounting service for the other two departments. The additional costs involved can be accumulated and subtracted from the Navy's quota share of total expenses of the Materiel Agencies.

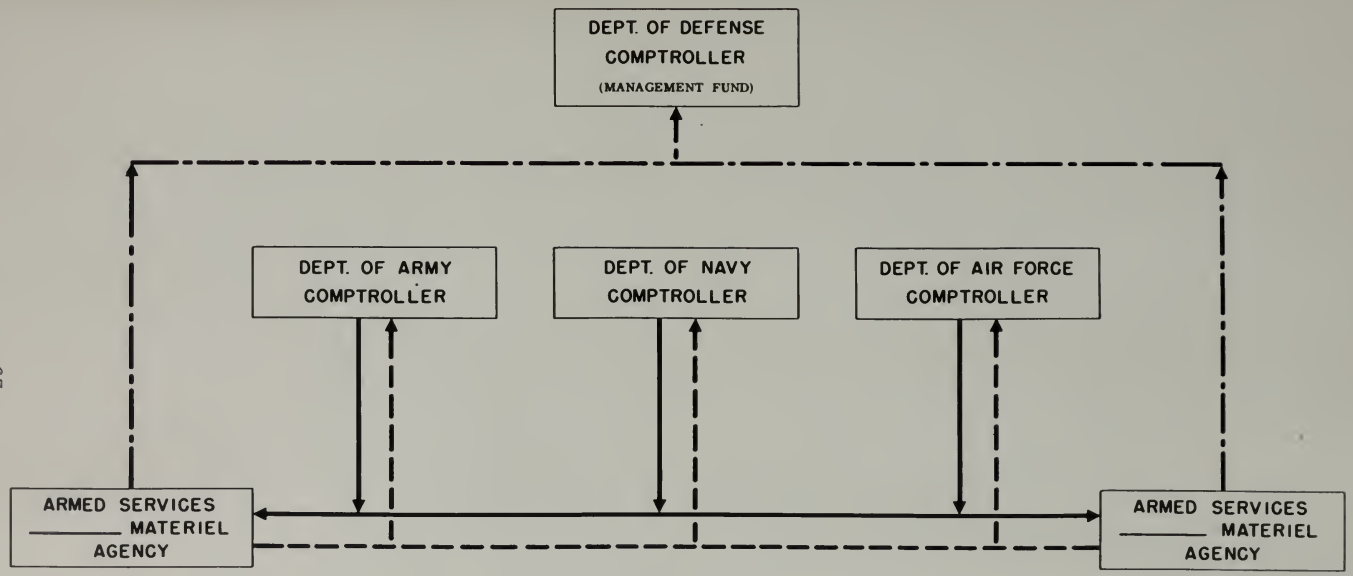
Accounting control of the Department of Defense Management Fund:-- Exhibit 6 portrays the reporting of expenses of operation by the Materiel Agency to the three military departments, the Agencies' Directorate, and to the O.S.D. Comptroller. It will be recalled that both the stores returns and expenditures reports from all field stocking activities furnish data as to dollar amounts of materiel issued for consumption against each department's appropriations. Therefore, the basis for applying the percentage share of expense of the Materiel Agency has been established. Not shown on the chart, is the payment in one total sum by the military departments to the O.S.D. Comptroller. He in turn, will advance cash funds to each Materiel Agency, based on its approved budget of planned operations for

stated period. For example, if the cost [illegible] 80 percent of all medical material issued [illegible] would be charged for 80 percent of the costs of [illegible] issued [illegible] medical Material Agency, [illegible] the departmental appropriation would [illegible] order to build up the cash portion of the [illegible] point that there was no question of [illegible] between payment for additions and [illegible] simplification the operating expenses of [illegible] also will be lowered so that only one [illegible] Management fund by [illegible] will be recalled that the Navy [illegible] for an accounting [illegible] tional costs involved [illegible] Navy's [illegible] share of total expenses of the [illegible]

[illegible] Control of the [illegible]

Fund:-- Exhibit 6 [illegible] the Material Agency in [illegible] [illegible], and in the [illegible] that both the [illegible] stocking activities [illegible] issued for consumption [illegible] Therefore, the basis for applying the [illegible] of the Material Agency has been [illegible] is the payment to [illegible] O.S.D. Comptroller. [illegible] cal agency, based on the [illegible]

# PROPOSED ACCOUNTING CONTROL OF DEPARTMENT OF DEFENSE MANAGEMENT FUND




LEGEND

- - - - REPORTS OF CHARGES TO MANAGEMENT FUND (OPERATIONS OF AGENCY).

——— PAYMENTS TO FUND ON BASIS OF DEPARTMENTAL ISSUES FROM STOCK FUND.

—·— REPORTS TO OSD COMPTROLLER OF CHARGES AND COLLECTIONS TO FUND.

1 May 1953

the next three or six months.

It should be quickly apparent that since the three military departments will ultimately bear the expenses of the Materiel Agency, they also have a real interest in the efficiency and economy of operation. They, therefore, through their service director, will be an influence in making each Materiel Agency operate as economically as possible. As a rough, but conservative guess, it is estimated that the average cost of a Materiel Agency will be about two million dollars a year. Any unusual expenses will certainly be scrutinized by the Directorate and by the O.S.D. Comptroller each year. The latter will make published financial statements of operations by the Materiel Agencies to the Congress of the United States.

Before the Department of Defense Management Fund can be established, it is probable that authorizing legislation will have to be passed by Congress. Of all the proposals made in this paper, only the use of the Department of Defense Management Fund is not within the power of the Secretary of Defense. While one of the Departmental Management Funds could be used for this purpose, it is probably best for prestige reasons to establish a Department of Defense Management Fund to finance the operations of the Materiel Agencies.

the most three or six months.

It should be quickly apparent that since the three military departments will ultimately bear the expenses of the material agency, they also have a real interest in the efficiency and economy of operation. They, therefore, through their service director, will be an influence in making such material agency operate as economically as possible. As a result, the representative phone, it is estimated that the average cost of a material agency will be about two million dollars a year. Any general expenses will certainly be scrutinized by the Directorate and by the U.S.C. Comptroller each year. The latter will make unbiased financial statements of operations by the Material Agencies to the Congress of the United States.

Before the Department of Defense Management Fund can be established, it is probable that authorizing legislation will have to be passed by Congress. Of all the proposals made in this paper only the use of the Department of Defense Management Fund is not within the power of the Secretary of Defense. While one of the Departmental Management Funds could be used for this purpose, it is probably best for prestige reasons to establish a Department of Defense Management Fund to finance the operations of the Material Agencies.

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